



# Charity Sector

## Specialist Charity Accountants

Newsletter

Autumn 2015

### Introduction

Welcome to our Autumn 2015 charity newsletter.

From an accounting and legislative perspective, the sector continues to be left relatively untouched compared to many other sectors, albeit with the new SORPs and auto enrolment onset as recent noteworthy changes. From a governance and strategic perspective, however, charitable organisations are facing a number of different challenges, some of which we consider in this newsletter.

### In this issue we look at:

- Challenges facing charities in 2015/16
- Q&A: Lessons for trustees after Kids Company closure
- The role of a trustee – guidance and advice
- New VAT refund scheme for certain charities
- Auto enrolment for charities – be fine, not fined!
- How can charities embrace the digital era?
- FAQ: A detailed guide to trustee recruitment

We hope you enjoy this edition of our newsletter and, as always, please get in touch if you would like any further information.



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### Hawsons are specialist charity accountants

At Hawsons we recognise that not-for-profit organisations have very different requirements from other businesses and are currently exposed to a challenging economic climate. Our dedicated team fully understands the complex, ever-changing regulatory requirements of the charity and not-for-profit sector. Given the additional pressures on fundraising, complex tax regimes, internal risk exposure and stakeholder demands, it has never been more important to obtain specialist professional advice.

Our specialist team acts for a large number of charitable and not-for-profit organisations across each of our Sheffield, Doncaster and Northampton offices. For more information on our charity and not-for-profit expertise, including the services we offer and our experience, please visit:

[www.hawsons.co.uk/charities](http://www.hawsons.co.uk/charities)



[www.hawsons.co.uk](http://www.hawsons.co.uk)



# Challenges for charities in 2015/16

Although not all charities have seen an improvement in their financial performance amidst a backdrop of economic uncertainty, the picture remains largely positive. However, charities continue to face unrelenting pressures and a range of mounting challenges as they aim to do their very best to assist the cause they support. In this briefing we look at the biggest legislative, governance and strategic challenges facing charities in 2015/16. Some of these challenges we have covered before so more information is available.

## Managing transition to the new SORPs

The implementation of, and successful transition to, the new charity SORPs is arguably one of the biggest challenges facing charitable organisations at the moment. Your financial statements this year will be the last to be prepared in the current format, and there are a number of key changes from the previous SORP 2005.

## Preparing for auto enrolment

The law on workplace pensions has changed and every organisation in the UK, including charities, must automatically enrol their employees. The ability of pension providers to provide solutions is becoming a real issue of capacity and, if you do not start preparing early, the cost of auto enrolment (which is your legal obligation) will soon build up. Are you ready?

## Mitigating vulnerability to fraud

No sectors are immune to fraud and the charity sector is no different. We have covered fraud in our last two newsletters, and again here in Autumn 2015. Fraud is one of the biggest challenges charities are facing and with almost 1 in 10 charities (with income of more than £100,000) reporting fraud and an annual cost to the UK charity sector of £1.65bn, it is essential trustees understand their risk exposure and do all they can to mitigate vulnerability.

## Minimising the VAT burden

VAT is a constant focus in the sector and presents a wide range of different challenges and issues for charities. The VAT reliefs available to charities are detailed and tightly defined, which is why it can sometimes be a complicated process. It is essential that trustees prioritise VAT awareness and seek professional advice in order to fully understand their VAT liabilities and tax planning opportunities. Are you maximising every opportunity to obtain those generous VAT reliefs specific to your charity?

## Creating a digital culture

Research has shown that the digital transformation in charities is about creating a digital culture, and that comes from the trustees. There are many instances where technology can help a charity enhance performance and grow, whether it's through attracting external funders or improving operational efficiencies. Social media, for example, can be beneficial in a number of ways (some of which you may not have considered) such as recruiting new trustees (particularly on LinkedIn) or as a cost-effective means of communication in fundraising campaigns. The importance of investing in technology and digital media should not be underestimated. Some key challenges within this are a reluctance to redesign traditional methods, a lack of trustee digital expertise and funding capacity.

## Managing risk through delegation

The board of trustees has ultimate responsibility for the charity and how it is run, but it cannot run it on a day-to-day basis. Delegation is essential in ensuring the charity's processes are fit for purpose and should not be overlooked. One key piece of advice we would give is to review the charity's delegation processes and segregation of duties on an annual basis to ensure they are fit for purpose.

## Summary...and a word on other charitable challenges!

There are a number of challenges that charities must overcome in order to maintain and develop a successful organisation over the course of 2015/16. Some of these challenges will of course have a more immediate impact (e.g. auto enrolment) and some will require a long-term strategic viewpoint. Let's not forget the other challenges charities face either, such as gift aid, trustee responsibilities, trustee recruitment, charity trading subsidiaries, conflict of interest and reserves. We will be covering each of these in an upcoming feature. Now, with the drama of the General Election behind us, we can hopefully focus on the future of the sector.

# Q&A: Lessons for trustees after Kids Company Closure

The news that Kids Company has closed down is a devastating blow to everyone involved. Following the closure we spoke to Hawsons' three charity partners, Simon Bladen (SB), Paul Wormald (PW) and Richard Burkimsher (RB) to get their thoughts on what lessons trustees can learn from its collapse.

For the full article please visit: [www.hawsons.co.uk/trustee-advice-kids-company](http://www.hawsons.co.uk/trustee-advice-kids-company)

## Q1 – What is the biggest lesson trustees will learn from the Kids Company closure?

**PW:** Trustees have overall responsibility for how a charity is run, including how its finances are managed. They need to make sure that they understand what funding is in place to enable the charity to meet its objectives, know how those funds are going to be spent, and make sure that sufficient reserves exist to enable a 'plan b' to be put in place if funding streams dry up in the short term.

**SB:** I would echo Paul's comments. Trustees have to be comfortable with the executive team managing the charity. They rely on the information being presented to them in order to run the charity effectively. For example, if management information is incomplete or budgets/forecasts are unrealistic then they need to be bold enough to challenge what is presented before them. Not doing so can be interpreted as irresponsible behaviour.

## Q2 – What advice would you give to trustees when there is so much speculation going on?

**SB:** I think there can often be the temptation to rely on fellow Trustees, especially when joining a charity with many long serving Trustees who will (or indeed should) have an encyclopaedic knowledge of the charity's affairs. But when speculation is rife the Trustees need to make sure they can demonstrate they have taken the necessary steps to arrive at the decisions they take. If there is hesitation in making decisions, especially of a financial nature, then perhaps the decision shouldn't be taken.

**RB:** Kids Company's cessation of operations should act as a reminder to trustees, who will often offer their support in good faith before being fully aware of their responsibilities. In all seriousness – ensure adequate insurance is in place!

## Q3 – What degree of transparency should there be in how funds are spent?

**PW:** Trust and confidence should be at the core of any charity's operations. Using the public's and/or government's money for the charity's objects means accountability is key – people want to know how their hard earned money is spent. The requirements of the Charity's SORP give a minimum standard of disclosure to the public at large, but the opportunity exists in the wider annual report for the Trustees to highlight how funds have been applied and what difference those funds have made to peoples' lives – that's an opportunity that really shouldn't be missed.

**RB:** There is already a great deal of transparency within the Charity Reporting Regime. Charity accounts often prove to be very lengthy and complicated for many users of those accounts. Putting more regulation and disclosure in place will not lock out the risk of a recurrence of recent events.

## Q4 – Are there always financial warnings?

**SB:** This really does depend. With good, trustworthy people in the right positions you would like to think that the warning signs are there. This is vital as it enables Trustees to take corrective action at the earliest available opportunity. Finding out after the event leaves Trustees with little hope of correcting the situation before it is too late.

**PW:** By having good systems of financial management, control, and forecasting, coupled with an ongoing dialogue with professional advisers Trustees can give themselves the best chance of identifying the warning signs when they arise, and take remedial action before it becomes too late.

## Q5 – Any final advice for trustees?

**RB:** Consider the use of an internal audit function. It may cost in the short term but may well be more cost effective in the longer term. Relying solely on an annual external audit, which has a different purpose, is inappropriate.

For the full article please visit:

[www.hawsons.co.uk/trustee-advice-kids-company](http://www.hawsons.co.uk/trustee-advice-kids-company)

# The role of a trustee – guidance and advice



One of the biggest challenges for charities and trustees, which we only briefly mentioned in our 2015/16 challenges outlook, is determining where trustee involvement should begin and end. This is particularly important for small and growing charities. It is also important to clarify the differing roles of a trustee vs. a volunteer/employee.

Essentially, trustees should be less involved in management and more focused on governance and strategy i.e. trustees must focus on leading the charity and deciding how it is run – but not necessarily be the ones doing the work themselves.

## Updated guidance – 6 main trustee duties

The Charity Commission has recently updated its guidance on this [charity trustee: what's involved (CC3a)] detailing the key duties and responsibilities of trustees of charities in England and Wales. Listed below is a summary of the trustees' 6 main duties, as highlighted in the guidance:

1. Ensure your charity is carrying out its purpose for the public benefit
2. Comply with your charity's governing document and the law
3. Act in your charity's best interests
4. Manage your charity's resource responsibly
5. Act with reasonable care and skill
6. Ensure your charity is accountable

For more information on the 6 main trustee duties please visit the Charity Commission's updated guidance: [www.gov.uk/charity-trustee-whats-involved](http://www.gov.uk/charity-trustee-whats-involved)

## Practical advice for trustees from Hawsons' specialist charitable partner

Simon Bladen, Charity & Not-For-Profit partner at Hawsons, said: "Determining the role of a trustee is a very serious matter for any charity's board of trustees, but particularly for those small and growing organisations. The guidance provided by the Charity Commission is an excellent starting point, with both detailed and summarised explanations of the trustees' main duties to the charity. Going beyond that, here is a brief summary of practical tips and advice:

- Trustees must find a balance between their focus on governance and administering the organisation and the importance of concentrating on strategic issues. This is an issue for large and small charities alike, but perhaps more of an issue in small charities where trustees are sometimes drawn into day-to-day management. Here, effective delegation can be vital.
- Be clear about time commitments. The trustees' role goes much further than turning up to board meetings, and includes attending events and engaging with the work of the charity. This helps give context to strategic decisions.
- Unlike an employee/volunteer, it is essential that trustees think proactively and plan for succession in order to ensure the continued effectiveness of the board. The old adage of 'failing to plan is like planning to fail' could never be truer.
- Make sure you are familiar with the charity's governing document. This is a document you should refer to regularly.
- There are a number of benefits that technology and digital communications can bring. Social media, in particular, could be an extremely cost-effective fundraising communication in local or global campaigns. It can also help facilitate transparency through open dialogue with the general public and donors. This digital-age must be led by the trustees. Are you ready?

We hope this advice helps clarify the sometimes blurry line between what a trustee should do and what a trustee shouldn't do. For more information on the role of a trustee please visit our website or get in touch with your local office charity specialist."

# New VAT refund scheme for certain charities



In Finance Act 2015 the government introduced a VAT refund scheme for palliative care charities, search and rescue charities, air ambulance charities and medical courier charities. The scheme came into effect from 1 April 2015.

The legislation itself is brief and many charities and their advisors have been awaiting HMRC's interpretation of the new rules before proceeding with claims. HMRC have now issued VAT notice 1001 which sets out their view of how the scheme applies.

The historic position is that where a charity has engaged in non-business activities it has not been able to recover the input VAT incurred in the course of those activities. The new VAT refund scheme allows the types of charity referred to above to reclaim input VAT on goods and services purchased in connection with non-business activities provided certain conditions are met.

In order to be eligible for the scheme the entity has to be recognised by HMRC as a charity for tax purposes and it must meet the main purpose test. In VAT notice 1001 HMRC state that 'main purpose' means the primary function of the charity. Governing documents such as a charity's memorandum and articles of association, constitution, trust deed and its annual report should refer to the main purpose of the charity and can be used in order to ascertain the position.

## Palliative care charities

A palliative care charity must have a main purpose of providing palliative care at the direction of, or under the supervision of, a medical professional to persons who have a terminal illness. This mainly covers hospice charities.

## Air ambulance charities

An air ambulance charity must have a main purpose of providing an air ambulance service in pursuance of arrangements made by, or at the request of, a relevant NHS body.

## Search and rescue charities

A search and rescue charity must have a main purpose of carrying out search and rescue activities in the UK or the UK marine area, and the search and rescue activities carried out by the charity must be co-ordinated by a relevant authority. Alternatively, a charity can qualify if its main purpose is to support, develop and promote the activities of a charity which meets these conditions.

## Medical courier charities

A medical courier charity must have a main purpose of providing services for the transportation of items intended for use for medical purposes or be a charity whose main purpose is to support, develop and promote the activities of a such charity.

Where a charity qualifies under this scheme it will only be entitled to recover the input VAT directly attributable to its non-business activities. Charities can continue to recover VAT incurred in connection with business activities and will still not be able to recover VAT on their exempt activities.

One area where relevant charities will have issues is in relation to government funding and whether this constitutes non-business income or exempt income. The question is whether the government income is considered to be a grant or contractual income. If it is considered a grant (albeit there may be some general conditions attached) then the income will be classed as non-business income, and hospices will be able to recover the input VAT. However, if it is considered a contract, then this is likely to be classed as exempt income, meaning the charity cannot recover the input VAT related to that activity under the new scheme.

**For more information please contact your local office.**

# Auto enrolment for charities – be fine, not fined!

The law on workplace pensions has changed and by 2017 every organisation in the UK, including charities, must automatically enrol their employees. The ability of pension providers to provide solutions is becoming a real issue of capacity and, if you do not start preparing early, the cost of auto enrolment (which is your legal obligation) will soon build up.

## Thousands of charities are approaching their staging date

As an employer you are responsible for enrolling all eligible employees into your scheme (and contributing to it). There are thousands of charities approaching their staging date, as the below table (a rough estimate) shows:

Staging date	Number of employees	Number of charities
Already passed	500+	215
Already passed	350-499	121
Already passed	250-349	209
Already passed	160-249	400
Already passed	30-159	3238
1 <sup>st</sup> June 2015 to 1 <sup>st</sup> April 2017	<30	22,000



## Do not underestimate auto enrolment duties

Over 80% of charities will be approaching their staging date and will automatically enrol between now and April 2017. However, despite the national media coverage and breath of information available the concerns remain over whether or not charities are prepared, as Nigel Smith, Director of Hawsons Wealth Management, explains:

“I think some charities are underestimating how complex auto enrolment is and how much work is involved. There are a number of tasks you must complete before your staging date and we advise charities to start preparing nine months - ideally twelve - before this date. Some charities that already have workplace pensions in place might assume that their existing scheme will meet minimum criteria, but this is not always the case. In fact, in the majority of cases it does not. The ability of pension providers to provide solutions is also becoming a real issue of capacity and if charities continue to delay their auto enrolment preparations they will likely be charged a more expensive service fee. Adding this cost to the potential fines charities could receive, at a minimum of £400, and the costs of auto enrolment can soon add up for those that wait.”

For more details and advice please come to one of our free auto enrolment seminars: [www.hawsons.co.uk/auto-enrolment-seminar](http://www.hawsons.co.uk/auto-enrolment-seminar)

## How can charities embrace the digital era?

Whether you are a new charity or have been around for many years, there are many instances where technology can help your charity enhance performance and grow, whether it's through attracting external funders, facilitating transparency or improving operational efficiencies. It is therefore unsurprising to see investments in technology and digital media so high on the agenda.

### So what's holding so many charities back?

There are a number of key challenges discouraging charities from embracing technology and digital communications, including a reluctance to redesign traditional methods, a lack of trustee digital expertise, risk adversity and funding capacity. These are not challenges restricted to charities, however; businesses, small and large, suffer from the same problem – but they can be overcome.

There are a number of ways to overcome and solve technology challenges in charities, including:

- Documenting policies and procedures (particularly important for social media)
- Piloting technologies
- Recruiting a trustee with experience in IT
- Seeking professional advice (particularly important when moving to cloud accounting)

We have only briefly touched on technological challenges within charitable organisations and this is a topic we will no doubt cover in more detail in an upcoming feature. There are, of course, also risks involved in those solutions which need to be carefully considered. Until we next look at technology in charities, ask yourself this question: What's holding your charity back?

# FAQ: A detailed guide to trustee recruitment

Trustee recruitment is arguably one of the most important governance challenges that any board at a charitable organisation is likely to face. Trustees are the people who lead charities, the people who decide how the charity is run and, ultimately, the people who safeguard the charity's future. It is therefore absolutely essential that the process of trustee recruitment is one that is carefully planned and thought-out.

In this article Paul Wormald, Charity & Not-For-Profit partner at Hawsons, answers some of the frequently asked questions surrounding trustee recruitment and the process involved.

## Where should I look to recruit new trustees?

There are a number of ways you can advertise a new trustee vacancy, including on several free websites, such as Charity Job, Trustee Bank (for NCVO members) and Third Sector. You should also utilise your networks (and that of current trustees). Do not just rely on word-of-mouth; use a range of different channels. Advertising to a small network, or using only word-of-mouth, can sometimes lead to a board full of similar people, with similar ideas.

## Can I use social media to advertise trustee roles?

Absolutely. Social media, particularly LinkedIn, is an excellent platform in which you can 'connect' to potential trustees. You can do this by promoting the vacancy through posts (get current trustees to help with this) or groups and also by looking at an applicant's prior experience on their LinkedIn profile page.

## We are looking to recruit a trustee with financial/legal experience, should we approach accountancy/legal firms?

There are a lot of accountants and solicitors who become trustees and approaching them directly – whether on the phone or through email - is certainly an avenue you should consider.

## How vigorous should the trustee interview process be?

Once you have reviewed applications and created a shortlist, you will begin the interview process. This should be an informal, yet robust, interview process – particularly for any positions which involve the charity's finance. Ensure that you check references and have a set interview process in place. Discuss the charity, its aims and be honest about the duties and time commitments expected of the new trustee.

## What would you say are the most important trustee skills and attitudes?

Although there are some general skills and attitudes you should look for in a trustee, such as integrity and passion, to fully understand the diverse needs of your organisation you must carry out a skills audit. This will help you to identify gaps and consider what skills you will need to bring to the team to fulfil your strategy. For example, if you are looking at developing your website you may be looking for a trustee with prior web development or IT skills. A board with varied skills, perspectives and backgrounds is usually advised.

## I am looking to become a trustee, how should I get in contact with charities?

Trustee positions are always being advertised so look on charity websites and across social media – particularly LinkedIn groups such as Young Charity Trustees. You should also use your networks to speak to current trustees you know, or people who can introduce you.

## What advice do you have for a new trustee?

Attend events, talk to staff and listen to your fellow trustees before trying to force through new ideas. Get to know the charity and its work first. Also, do not volunteer for too many things! It can sometimes be daunting as a new trustee, but only volunteer for things that you have the time and skills for.

## Final pieces of advice...plan/review!

The first steps any charity's board should make when recruiting a new trustee is to layout a timetable for recruitment, conduct a skills audit and then draft a role description for the vacancy. This will help to ensure that the board and the prospective trustees understand the role and recruitment timescales.

Afterwards, review the process for recruiting your new trustee. Ask yourself what worked well, what didn't work and what could have worked better, and then adapt the process accordingly. Also, always remember: what worked before won't necessarily work again, so don't keep all your eggs in one basket!

**For more information please contact Paul at [pw@hawsons.co.uk](mailto:pw@hawsons.co.uk) or call your local office specialist.**



# Charity Health Check

## How healthy is your charity?

If you answer no to any of the below questions, we would really like to meet you and share with you how Hawsons may be able to help you. We offer all new clients a free initial, no-obligation consultation, at a time to suit you. Whether we are appointed as auditors/advisers, or helping with a one-off exercise, we look forward to meeting you.



## Questions

- |   | YES                      |
|---|--------------------------|
| Do you feel that your charity has sufficient funds to undertake all of its aims?  | <input type="checkbox"/> |
| Have the trustees outlined a policy for reserves setting out the amount the charity needs to hold in funds?                         | <input type="checkbox"/> |
| Have you reviewed the new charity SORP and understand how your charity's accounts may be affected?                                  | <input type="checkbox"/> |
| Do the charity's accounts present the best image to funders and the public at large?  | <input type="checkbox"/> |
| Are you making full use of the SORP exemptions to make the charity's published accounts easier to follow?                           | <input type="checkbox"/> |
| Have you undertaken a VAT health check in the last 12 months?   | <input type="checkbox"/> |
| Does the charity have incoming resources that may be VATable?   | <input type="checkbox"/> |
| Are you confident that your charity is not undertaking trading activities?  | <input type="checkbox"/> |
| Are you aware of the tax laws relating to charities and are confident that the charity is complying with them?                      | <input type="checkbox"/> |
| Do you find dealing with the charity's payroll and making HMRC returns a straightforward process?                                   | <input type="checkbox"/> |
| Do the charity's trustees know about their responsibilities and level of personal risk?   | <input type="checkbox"/> |
| Has the charity considered the potential benefits of incorporation?   | <input type="checkbox"/> |
| Have you reviewed the structure of the charity recently to check that it's still appropriate for the activities that it undertakes? | <input type="checkbox"/> |
| Are you comfortable that the charity has control over all of its incoming resources and expenditure?                                | <input type="checkbox"/> |
| Can the charity demonstrate how funds have been applied to its aims with relative ease at any given point in time?                  | <input type="checkbox"/> |
| Does the charity have a funding plan for the next 12-24 months?   | <input type="checkbox"/> |

**Did you answer no to any of these questions?**





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Find out more about how Hawsons can help your charity.

Please call your local office or visit:

[www.hawsons.co.uk/charities](http://www.hawsons.co.uk/charities)



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