

Charity Insight

In this issue:

First International Non-Profit Accounting Guidance enters final consultation

What is the role of a charity trustee?

Formal volunteering falls to an all-time low

Differences between business and charity accounts

Creative Tax Reliefs - permanent higher rates of tax reliefs

2024 Ransomware Trends



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Simon Bladen Partner



Introduction

We enter the summer months not only with the promise of some warmer weather, but also the after effects of a general election and uncertainty in both Europe and the US. This is placing more pressure on charities who face significant challenges delivering essential services to their communities. Our aim is to provide charities with the latest sector news to ensure they are up to date with the latest regulations.

In the edition of the newsletter we discuss:

- First International Non-Profit Accounting Guidance enters final consultation
- What is the role of a charity trustee?
- Formal volunteering falls to an all-time low
- Differences between business and charity accounts
- Creative Tax Reliefs - permanent higher rates of tax reliefs
- 2024 Ransomware Trends

As always we hope you enjoy the contents of this newsletter, please do not hesitate to contact us if you have any questions about the articles in this edition.

Simon Bladen
Partner



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First International Non-Profit Accounting Guidance enters final consultation

The development of the first International Non-Profit Accounting Guidance (INPAG) for non-profit entities has progressed into a third and final consultation. Currently, no international accounting guidance exists for non-profit organisations.

What issues does the Non-profit Accounting Guidance aim to address?

The Chartered Institute of Public Finance and Accountancy (CIPFA) and Humentum have released a third and final exposure draft. The draft outlines that this new guidance is aiming to address the following issues:

- Fund accounting
- Classification of expenses
- Donor reporting formats for supplementary statements.

Why is there a need for international non-profit accounting guidance?

Currently, there is a lack of specification when it comes to standardised financial reporting for the non-profit sector. INPAG are looking to address this by creating standardised financial reporting for the non-profit sector globally which will help increase credibility and trust.

Where can I find more information?

View Exposure Draft 3 here: <https://www.ifr4npo.org/ed3>

Learn how to provide feedback on Exposure Draft 3: <https://www.ifr4npo.org/have-your-say/>

Exposure Draft 3 is open for comment until 16th September 2024.



What is the role of a charity trustee?

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

Charity trustee guidance – 6 main trustee duties

The Charity Commission last updated their essential trustee guidance in 2018. This guidance highlights all the duties and responsibilities of trustees of charities in England and Wales. Listed below is a summary of a trustee's 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 resources 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: <https://www.gov.uk/government/publications/the-essential-trustee-what-you-need-to-know-cc3/the-essential-trustee-what-you-need-to-know-what-you-need-to-do#ensure-your-charity-is-carrying-out-its-purposes-for-the-public-benefit-1>

Practical advice for charity trustees

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 a useful 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:

Continued overleaf



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What is the role of a charity trustee? (Continued)

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 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.



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Formal volunteering falls to an all-time low

A recent analysis by Pro Bono economics (PBE) has found that rates of formal volunteering have reached an all-time low as 40% of charities report that volunteering numbers have been insufficient to enable them to meet their main objectives in the last 12 months.

Small charities appear to have been the hardest hit with falling volunteer numbers. 65% of small charities reported volunteer recruitment difficulties in the last 12 months compared to 58% in the previous 12 months.

On the other hand large charities reported that volunteer recruitment difficulties had eased slightly with 42% reporting difficulties in the last 12 months compared to 51% in the previous 12 months.

Why have volunteering numbers fallen?

PBE have compared their latest findings with the government's latest community life survey from 2021/22.

This survey found that the main barriers identified for volunteering are:

- Work commitments.
- Lack of time.
- Giving up volunteering to care for others.

Flexible volunteering

In its analysis, PBE suggested that charities could try and offer flexible volunteering opportunities. In theory, this would be a way of enabling individuals to help volunteer in smaller ways with reduced time commitment but could still help them to make a difference with charities they care about.



Differences between business and charity accounts

Navigating the financial landscape can be complex, especially when it comes to managing accounts for different types of organisation. While both business and charity financial reporting is essential for their respective entities, they serve distinct purposes and operate under different regulations and expectations.

In this article, we delve into the key differences between business and charity accounts.

Charity income is accounted in to more than one pot (restricted, endowment and designated)

The first major difference between business and charity accounting is that accounting for income differs significantly, due to the specific regulatory and reporting requirements charities must adhere to. Charity accounting rules state that income must be categorised into three distinct pots: restricted, endowment, and designated (unrestricted) funds.

Restricted funds: Restricted funds are donations or grants given for a specific purpose, and must be used exclusively for that purpose.

Endowment funds: Endowment funds consist of donations intended to be invested, with only the generated income being used for charitable activities.

Designated funds: Designated funds are portions of unrestricted income that the trustees have earmarked for a specific future project.

Ascertaining the classification of funds as important and can be challenging as there are differing rules regarding how these can be utilised and accounted for. These rules can perhaps be confusing for charity trustees that may be used to the normal profit and loss accounts of a business.

Please visit the government website for more information: <https://www.gov.uk/government/publications/charity-reporting-and-accounting-the-essentials-november-2016-cc15d/charity-reporting-and-accounting-the-essentials-november-2016-cc15d--2#the-accounting-framework-at-a-glance>

Normal accounting standards and principles don't always apply for charity accounts.

In business, you generate money by providing a service or product. However, in charity individuals and businesses will donate money and often expect nothing in return which changes the principles.

Continued overleaf



Differences between business and charity accounts (continued)

Different tax considerations

Charities need to consider their primary purpose as this has direct implications on their tax exemptions. In addition, VAT rules can be complex depending on the source of income.

Read our VAT for charities article for more information: <https://www.hawsons.co.uk/vat-for-charities/>

Different terminology

Business and charity balance sheets tend to look very similar. However, the terminology is different. Whilst the top half of the balance sheet is often the same, the bottom half is balanced by the collective total of funds held by the charity. These are split into unrestricted, restricted and endowment. The supporting notes and accounting policies in the accounts also differ considerably, both in terms of their content and terminology.

Summary

To summarise there are significant differences between business and charity accounts. Including, how income is accounted for, tax considerations and differing terminology to name just a few.

To find more information on charity accounts please visit: <https://www.gov.uk/government/collections/charity-accounts-financial-reporting-and-tax>

Creative Tax Reliefs – permanent higher rates of tax reliefs

In the Spring Budget, the Chancellor announced that a permanent extension will be made to tax relief for theatres, orchestras, museums and galleries. The government is also providing £26 million of funding to upgrade the National Theatre's stages and infrastructure.

Permanent higher rates of tax relief

From 1 April 2025, the rates of Theatre Tax Relief (TTR), Orchestra Tax Relief (OTR) and Museums and Galleries Exhibitions Tax Relief will be permanently set at 40% (for non-touring productions) and 45% for touring and orchestral productions. The aim of this is to strengthen the UK's cultural sector.

Find out more about [Creative Tax Relief](#) and [Theatre Tax Relief](#) services.



2024 Ransomware Trends

The cyber security criminals aren't giving up, and they're not just doubling down either. They are now tripling down. They even have virtual "ransomware supermarkets" for criminals to pop in and buy ransomware in a box with a set of instructions so even more criminals can lurk inside your network for weeks on end, planning their attack to maximise the havoc to your business. In this article, we look at some of the ransomware attack trends of 2024.

Current ransomware attack trends that will continue into 2024

In this section, we identify current ransomware attack trends that are expected to continue into 2024.

Supply chain attacks

Supply chain attacks do not just attack a single victim, they usually infiltrate an entire organisation compromising its suppliers or service providers. These attacks exploit the interconnected nature of modern supply chains, leveraging trusted relationships to gain unauthorised access to valuable data and systems. Once inside, attackers deploy ransomware, a type of malicious software that encrypts files or systems, rendering them inaccessible until a ransom is paid. Whilst this is not a new trend these types of ransomware attacks will likely continue. This is because the attackers will usually demand a large

ransom because of the types of organisations they target, making it a very lucrative type of ransomware attack.

Triple extortion ransomware attacks

Triple extortion ransomware attacks operate on a three-pronged strategy, combining traditional encryption-based ransomware tactics with additional methods of extortion. The three elements typically include:

- Data encryption
- Data theft
- Reputational damage

In this type of attack, the attackers will seek to infiltrate the victim's network to disrupt operations before stealing sensitive information and demanding huge ransoms knowing that the threat of public exposure could tarnish the reputation of the organisation.

Continued overleaf



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2024 Ransomware Trends (continued overleaf)

Ransomware as a service (RaaS)

These days, ransomware attackers don't even need to code their ransomware. RaaS is a pay-for-use malware that provides attackers the correct coding to launch and maintain a ransomware attack which now gives more individuals the opportunity to launch a ransomware attack.

Attacking unpatched systems

Ransomware attacks exploit vulnerabilities in computer systems to infiltrate networks and encrypt critical data, rendering it inaccessible until a ransom is paid. Software companies announce the vulnerabilities they have fixed including the background to what the problem is, and the criminals use that information to set up automated scans across the internet for vulnerabilities.

Phishing attacks continue and are even more sophisticated

Phishing ransomware attacks typically begin with a deceptive email or message designed to lure unsuspecting users into clicking on a malicious link or downloading an infected attachment. Once the victim interacts with the phishing content, an innocent-looking payload is deployed onto their system which can then download the ransomware and

set it up without the user knowing anything about it.

After a period of planning, the criminals set the ransomware off encrypting critical files and locking users out of their data. In some cases, ransomware variants may also exfiltrate sensitive information before encryption, providing the criminals with additional leverage to coerce victims into paying a ransom. Whilst this is now a very well-known method of ransomware attack it is still one that is used regularly by attackers and there are no signs of phishing attacks ending.

Ransomware trends for 2024 and beyond

We are now going to explore some new ransomware trends that are expected to evolve into 2024 and beyond.

Attack methods that will evolve to exploit cloud and VPN infrastructure

It is to be expected that ransomware attacks on VPN infrastructure exploitation will become more sophisticated. This will present significant challenges for organisations that use VPNs for remote working and secure communications. The likely attack methods will be on outdated software with security vulnerabilities, weak passwords and multi-factor authentication.



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2024 Ransomware Trends (continued overleaf)

Generative AI could become a huge issue

It is predicted that 2024 will be a huge year for the implementation of AI to help organisations operate more efficiently. However, the rise of generative AI could make it easier for attackers to create more advanced phishing campaigns more efficiently, which means they will be able to target more individuals and organisations with their attacks.

How to mitigate against ransomware attacks?

1. Employee education and awareness

One of the most critical components of ransomware mitigation is educating employees about the risks of cyber threats, including phishing scams and social engineering tactics commonly used by ransomware operators. Regular training sessions and awareness programs can help employees recognise suspicious emails, links, and attachments, empowering them to take proactive measures to prevent ransomware infections.

2. Implement robust email security measures

Since many ransomware attacks originate from phishing emails, organisations should deploy robust email security solutions to detect and block malicious messages before they reach end-users inboxes. Advanced threat detection mechanisms, such as

machine learning algorithms and sender authentication protocols, can help identify and neutralise phishing attempts in real time, reducing the likelihood of successful ransomware infections.

3. Regular Software Patching and Updates

Keeping software and operating systems up to date with the latest security patches and updates is essential for mitigating the risk of ransomware attacks. Vulnerabilities in software applications are often exploited by threat actors to gain unauthorised access to systems, making timely patching updates a critical defense mechanism against ransomware exploits. Organisations should establish robust patch management processes to identify, prioritise, and apply security updates promptly.

4. Implement Access Controls and Privilege Principles

Limiting access to sensitive data and systems through access controls and privilege principles can help prevent unauthorised users from modifying or encrypting critical files in the event of a ransomware attack. By restricting access to only those individuals who require it to perform their job functions, organisations can reduce the attack surface and mitigate the potential impact of ransomware infections.



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2024 ransomware trends (continued overleaf)

5. Backup and Disaster Recovery Planning

Implementing robust data backup and disaster recovery mechanisms is essential for mitigating the impact of ransomware attacks. Organisations should regularly back up critical data to offline or cloud-based storage repositories and test their backup restoration procedures to ensure data integrity and availability in the event of an attack. A comprehensive disaster recovery plan should outline the steps to be taken to restore operations and minimise downtime following a ransomware incident.

6. Network Segmentation and Intrusion Detection

Segmenting networks and implementing intrusion detection systems can help contain the spread of ransomware within an organisation's infrastructure and detect anomalous behaviour indicative of a ransomware attack. By isolating critical systems and monitoring network traffic for signs of malicious activity, organisations can identify and respond to ransomware threats more effectively, minimising the impact on their operations.

Cyber insurance

Even if you've protected your business to the highest level your budget will allow, that protection can still be breached. The mindset has to be one of planning both to prevent the criminals from accessing your network

and planning for what happens if they do. Cyber insurance coverage needs to be checked annually to make sure you have the right type and level of coverage so that if your data is exposed your business is protected. As an example, if customer records are exposed, buying identity theft insurance can be very expensive.

Conclusion

To conclude, the ransomware criminals aren't giving up and A.I will only help criminals to work smarter and faster and make phishing attacks more plausible. It doesn't take much imagination to see how criminals could use A.I to take the voice from a YouTube video of your CEO and use that in a social engineering phone call to one of your employees so, if you haven't done it recently, now is the time to review your protection and recovery against ransomware.



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Get in touch



Our charity experts

At Hawsons our accountants 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 of charity accountants fully understands the complex, ever-changing regulatory requirements of the charity and not-for-profit sector. Irrespective of your size we wish to support you to maximise the benefits you could achieve through our specialist professional advice.

Charities & not-for-profit organisations are currently facing extensive changes in their regulatory and legal framework. 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.



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