



ICAEW CPD course for charity trustees – Part 1

FUNDAMENTALS AND ENDURING RESPONSIBILITIES

PRESENTED BY SALLY KNIGHT FCA, DChA

Structure: Part 1 of the CPD course

PART 1: Fundamentals

- What is a charity? What type of charity are you involved with?
- UK charity regulators - overview
- Being a charity trustee and the 6 main duties, with a focus on the need to:
 - Make effective decisions
 - Manage conflicts of interest/loyalty
 - Manage your charity's resources responsibly
 - Maintain accountability
 - Identify and manage risks
 - Report serious incidents

What makes an organisation 'charitable'?

- It is established for one or more of the **charitable purposes** as defined by charity legislation in the relevant UK jurisdiction
- It has **Objects** which fall under one or more of the charitable 'heads'/purposes, *and*:
 - it exists to provide a **public benefit**, either:
 - generally, or
 - to a sufficient section of the public
- All charities must have a:
 - **governing document** - constitution/'rule book' which sets out how the charity will be run
 - **Board of Trustees** ie, a governing body being those 'charged with governance' although in practice you may be referred to under a different name

What type of charity are you involved with?

Know, understand and abide by your organisation's Governing Document

Unincorporated:

- Charitable trust
- Association – can be charitable but doesn't have to be

Incorporated (limited liability):

- Charitable company (limited by guarantee)
- Charitable Incorporated Organisation (CIO)
 - Foundation CIO
 - Association CIO
- Incorporated by Royal Charter/Statute

- 'Exempt' charities
- 'Excepted' charities

Charities may also fall within scope of **other regulatory regimes**, and will have to comply with **other legislation**

Other types of not-for-profit structures include:

Community Interest Companies (CICs); other Companies which do not have charitable status; Co-operative Societies; Community Amateur Sports Clubs (CASCs); Community Benefit Societies (can be charitable)

UK charity regulators



Being a charity trustee



- Trustees are the people who have overall responsibility for running a charity; they must ensure that the charity
 - complies with its Objects
 - operates for the public benefit
 - complies with all relevant legislation
- Reading through CC3: The Essential Trustee guidance, and understanding the 6 main duties, should be a key part of your introductory and ongoing training as a trustee
- CC3 and related guidance available on the Charity Commission's website, including the '5-minute guides' for charity trustees
- CC3 also forms the 'Foundation' for the Charity Governance Code – more in Part 2

**Charity
Governance
Code**

‘The Essential Trustee’: 6 main duties



- As trustees, you have *collective* responsibility for running the charity, ensuring compliance with the charity's governing document and relevant laws and regulations, and **making effective decisions**
- Remain focussed on the overriding importance of acting in the charity's best interests, and therefore identifying and **managing conflicts of interest and loyalty**
- As an accountant/finance professional you are also likely to have a specific role in ensuring the **charity manages its resources responsibly** – especially financial resources – and maintains financial/legal **accountability**
- Hopefully things will go well – but you also need to know what to do if things go wrong. As trustees, you have a legal duty to **Report Serious Incidents** to the charity regulator/s

Make effective decisions

- Follow legal requirements and the basic principles in the **CC27 guidance**: It's your decision – charity trustees and decision-making
- Ensure you are clear about the matters reserved for the Board, what can and should be delegated, and the reporting processes back to the Board
- Ensure that Board agendas and papers make clear what is expected of the Board, and that minutes accurately and fairly record the decision-making *process* as well as the final decision
- Trustees always retain ultimate responsibility

As trustees you must:

- act within your powers
- act in good faith and only in the interests of the charity
- make sure you are sufficiently informed
- take account of all relevant factors
- ignore any irrelevant factors
- identify, manage and record conflicts of interest
- make decisions that are within the range of decisions that a reasonable Trustee body could make

Manage conflicts of interest/loyalty

- A key area of concern/interest to the Charity Commission
- As trustees, you must make decisions based only on what's best for your charity
 - Do not allow your personal interests, or the interests of people or organisations connected to you, to influence those decisions
 - Board's collective responsibility to act properly
 - not just the trustee with the conflict
- Financial conflicts (even if the charity would 'get a good deal')
- Loyalty conflicts

Adopt a structured approach:

- **Identify and declare**
 - early; clearly document; refer to governing document; conflicts of interest policy; keep an up to date register of interests
- **Take action to stop the conflict from affecting your decision**
 - remove the conflict; or
 - manage the conflict
- **Keep a clear record to show that you have acted properly**
 - what; who; when; how

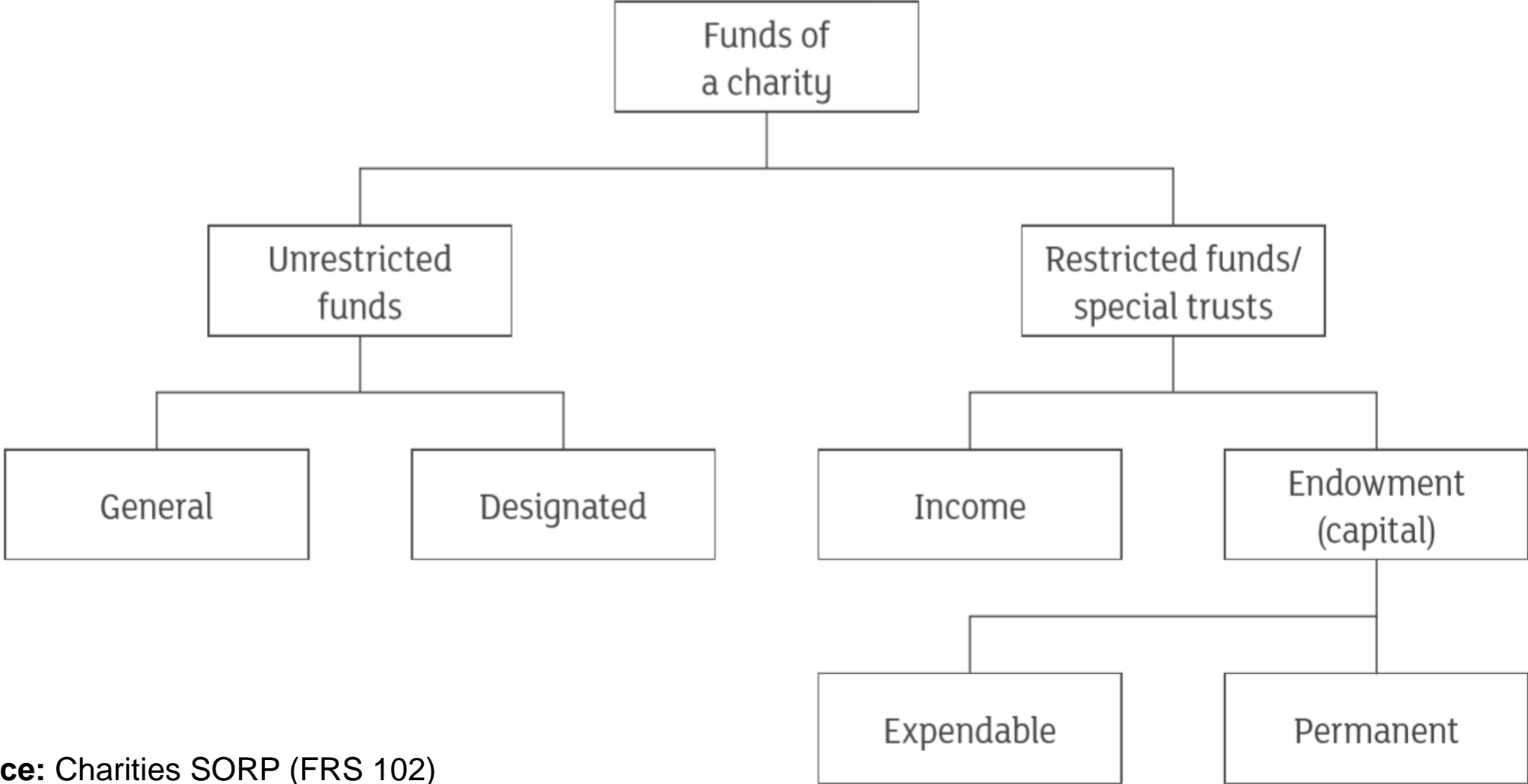
Manage your charity's resources responsibly

Your duty here is in relation to 'resources' in its widest sense. However, in terms of **financial resources**, trustees need to ensure that:



- the charity has a robust and appropriate financial plan/strategy and reserves policy (CC19 guidance on charity reserves)
 - the charity has sufficient funds to carry out its activities in line with its Objects and strategic objectives, and public benefit obligations
 - there are adequate internal controls in place which protect the charity's funds (CC8 guidance on internal financial controls, plus checklist)
-
- the charity keeps accurate **accounting records**/financial information
 - there are systems and information in place to **alert trustees** if things are difficult or going wrong
 - all relevant **financial reporting and scrutiny requirements** are complied with

Understand your charity's funds



Source: Charities SORP (FRS 102)

Maintain accountability

Trustees need to ensure that:

- the charity produces and submits the required **format/content** of financial information to the regulator/s and other external parties – within required **timescales**
- the documents have been subject to the correct form of **external scrutiny**
 - nothing needed; or
 - independent examination; or
 - external audit

ICAEW resources and Charity
Commission guidance eg, CC 31 & 32

The requirements/options will depend on factors including the charity's:

- place of registration and the regulatory regime of the jurisdiction/s
- legal form and its governing document, which may contain additional reporting requirements
- size, particularly its gross income and gross asset levels
- any additional requirements from the charity's donors or funders



Types of charity accounts (E&W)

- Receipts and payments (R&P) accounts
- Simplest method (CC16 R&P accounts pack)
- Can only be used where a non-company charity (includes CIOs) has a gross income of £250,000 or less during the financial year
- R&P accounts contain a statement summarising all money received and paid out by the charity in the financial year, and a statement giving details of its assets and liabilities at the end of the year
- Charitable companies are not allowed by company law to adopt this method

- Accruals accounts
- Non-company charities with gross income of over £250,000 during the financial year, and all charitable companies must prepare accruals accounts that comply with the applicable Statement of Recommended Practice (SORP)
- Accruals accounts contain a Balance Sheet, a Statement of Financial Activities, [a Statement of Cash Flows, if income exceeds £500,000] and explanatory notes
- These accounts are required in accountancy terms to show a 'True and Fair view'

Identify and manage risks



- You have a collective Board responsibility, to:
- Ensure that consideration of risk, and how risk is managed, is a central part of the Board's planning and decision-making processes
- Consider strategic and big picture risks, including risks to the charity's reputation
- Ensure there is suitable risk 'governance', which is likely to include a risk management strategy and consideration of Risk appetite – which staff and volunteers also understand
- Ensure that suitable processes and controls are in place to actively manage or mitigate the effects of 'risk'
- Document and report on risk, for example, in line with the Charities SORP

Report Serious Incidents

- If a serious incident takes place within your charity, **trustees** must make prompt, full and frank disclosure to the charity regulator/s, in line with legal requirements
- Follow the charity regulators' guidance which sets out:
 - How to report; decisions and actions which need to be taken **by trustees**
 - A list of reportable matters and an 'Examples table' – it is the **trustees'** responsibility to decide when and what to report
- **Trustees** may also need to report when an incident has occurred involving one of the charity's partners in the UK or internationally
- These reporting responsibilities are separate to the duties that charity auditors and Independent Examiners have to report certain matters to the charity regulator/s under the 'matters of material significance' and 'reporting of relevant matters' regimes

Challenges you may come across

- Complexity of charity accounting, and understanding the role and content of the Charities SORP – many differences from ‘commercial’ accounts
- Length and detail of the Trustees’ Annual Report and Accounts, including emphasis on demonstrating outcomes and impact; other disclosures
- Your role (perhaps) as the main ‘finance’ expert – in a formal or informal position. Finance is always a collective Board responsibility although there may be a higher expectation of trustees with special knowledge and experience
- If applicable, ensuring an efficient and effective Finance/Audit Committee structure and accountability back to the main Board
- Your expectations of what should be possible compared to the nature of information, availability of resources, quality of systems etc in your charity and the wider charity sector
- Keeping abreast of current and upcoming developments in the charity sector and how these impact the charity/ies you are involved with – you may find Part 2 of this course helpful!



[icaew.com](https://www.icaew.com)