DAINS ACCOUNTANTS

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Charity trustees lack cyber security skills

Charity trustees lack a basic understanding of the cybersecurity risks facing their organisation, according to a report published by the Department for Digital, Culture, Media & Sport (DCMS) as part of its National Cyber Security Strategy.

The 'Cyber Security among Charities' report revealed that many trustees do not invest in cybersecurity because they regard it as an issue for business rather than charities. For example, many trustees of smaller charities believe that since they do not have large cash reserves or databases holding donors' credit card details, they are unlikely to be targeted by cyber criminals. As a result, a significant number of trustees lack the skills and knowledge to identify and address cybersecurity risks.

Other barriers that prevent charities from introducing cybersecurity measures include a perception among trustees that cybersecurity is a common sense issue that does not require investment. In addition, since many smaller charities do not use online banking or other digital services, they believe that even in the event of a cyber attack, their organisation would not lose sensitive financial data. Charity trustees also face significant budget and resource pressures and, as a result, prioritise investment in other activities such as fundraising and service delivery over cybersecurity.

The report has also indicated that charity trustees often have a very limited understanding of the range and diversity of cyber threats facing their organisation. In particular, many trustees do not make the link between data protection and cyber security, and instead regard them as two separate issues. For example, awareness of the General Data Protection Regulation (GDPR) is particularly low and of those trustees who have heard of the GDPR, few had taken steps to ensure their organisation will be compliant with the new legislation when it comes into force from May 2018.

With regard to how cyber security awareness can be improved within the charity sector, the majority of trustees believe the Government has an important role to play. However, few trustees have proactively sought Government information on cyber security and many did not know that it provided information specifically for charities.

In response to the findings, DCMS has announced that it is working with the Charity Commission for England and Wales to produce new guidance to help trustees improve the cyber resilience of their organisation, staff and volunteers.

Helen Stephenson, Chief Executive of the Charity Commission, said: *"Charities have lots of competing priorities but the potential damage of a cyber attack is too serious to ignore. It can result in the loss of funds or sensitive data, affect a charity's ability to help those in need, and damage its precious reputation. Charities need to do more to educate their staff about this threat and ensure they dedicate enough time and resources to improving cyber security."*

Read more about the report at: http://bit.ly/2xXSXAD And: http://bit.ly/2ymaZNS

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changes to Annual Return for charities

The Charity Commission for England and Wales is consulting on its proposals to reform the Annual Return and introduce a new Update Charity Details (UCD) service. The proposals are part of a two-year project to cut the amount of information that smaller charities have to submit to the Commission each year.

Under the proposals, the Commission will use the Annual Return to collect regulatory information about a charity, while trustees of charities with an annual income of more than £500,000 will also have to answer additional financial questions.

The UCD service will enable charity trustees to notify the Commission of changes to essential information, such as the charity's contact details, throughout the year. As long as a charity keeps its details up to date, it will just have to confirm that they are accurate when completing the Annual Return.

The consultation also includes details of a number of new questions that will be included in the Annual Return. In particular, trustees will have to state how many grants they receive from central or local government, as well as how many government contracts they hold. These questions have been introduced to help identify charities that are potentially over reliant on a single source of funding.

Trustees will also have to state how much gift aid their charity has claimed as part of the Commission's efforts to tackle the misuse of the gift aid system. Other new questions will ask trustees to confirm how many members of staff are paid an annual salary of more than £60,000, as well as ask for more information about other payments made to employees who have previously been trustees.

The Commission is consulting on the plans until 24 November 2017 and the new Annual Return and UCD service will apply to financial years starting on or after 1 January 2018.

Read more about the proposals at: http://bit.ly/2fLcWM2

Charity law changes could help charities run more effectively

The Law Commission has recommended several changes to charity law in England that it believes would help charities run more effectively. The recommendations are set out in the Commission's 'Technical Issues in Charity Law' report, published in September 2017. According to the report, problems in charity law are preventing and delaying legitimate charitable activities, forcing charities to obtain professional advice where there is no need to do so, and discouraging volunteering. The Commission estimates that implementing its recommendations would save the third sector around £27 million in administration and advice costs each year.

Several of the Commission's recommendations concern the legal restrictions on donations received as part of a fundraising campaign that did not raise the target amount. If this happens the current law requires charities to contact donors and offer to return their donations. The Commission suggests that this rule is relaxed, to allow charities to use donations of up to £120 in a single year 'cy prés', meaning for purposes other than the unsuccessful campaign. According to the Commission, the cost of contacting donors is often disproportionate to the donation and donors themselves can feel that this is not the right course of action. The Commission also recommends that charities are allowed to use up to £1,000 of funds from an unsuccessful campaign cy prés without having to seek the Charity Commission's consent to do so.

Another key recommendation relates to the supply of goods by charity trustees to their charity. The Commission suggests an amendment to charity law that would authorise charities to provide trustees with reasonable remuneration for supplying goods. (Such a provision is already in place regarding the supply of services). This amendment would mean trustees could supply goods to the charity without breaching their trustee fiduciary duties. The Commission also recommends giving the Charity Commission the power to authorise trustee remuneration for goods or services where it would be inequitable to otherwise do so. Currently, remuneration can only be authorised by making a costly application to the court.

Read more about the Law Commission's recommendations at: http://bit.ly/2kjtts3

in brief...

Free fundraising training for charities

The Department for Digital, Culture, Media & Sport (DCMS) has launched a new training programme for smaller charities. The programme will provide free and low-cost training to support charity trustees, staff and volunteers with various aspects of fundraising, including fundraising from trusts, developing a fundraising strategy, online fundraising and developing corporate relationships. Support will include workshops, telephone advice sessions, webinars, face-to-face training, bursaries and mentoring. A fundraising toolkit and package of training resources will also be made available online for charities that are unable to attend the training. The programme will be delivered by the Small Charities Coalition, Localgiving, the Foundation for Social Improvement and Charity Finance Group. Overall, the programme will deliver around 4,000 training opportunities across the UK by March 2018. http://bit.ly/2xXtFm2

New code to strengthen charity governance

A new voluntary code to strengthen governance in the charity sector in England and Wales has been launched by a group of charity membership bodies, including the National Council for Voluntary Organisations (NCVO) and the Small Charities Coalition. The Charity Governance Code sets out key principles and recommended practice for good governance and accountability in the charity, voluntary and community sectors. Recommendations, which are tailored to the needs of large and smaller organisations, include requiring all charity trustees to step down within nine years unless there is good reason for not doing so, improving the oversight of trustees dealing with third parties such as fundraising agencies and requiring larger charities to undergo external reviews every three years. The Charity Commission for England and Wales has withdrawn its 'Hallmarks of an Effective Charity' guidance to encourage more trustees to use the new code. http://bit.ly/2xbQjbh

New guidance to help trustees prevent fraud

Charity Finance Group (CFG) has issued new guidance to help smaller charities tackle fraud. The 'Small Charities Guide to Preventing Fraud' outlines a range of practical steps that charity trustees can take to detect, prevent and respond to fraud. These include ensuring that trustees are complying with their legal duty to safeguard their charity's assets and money, implementing an anti-fraud strategy, helping staff and volunteers to identify fraud and strengthening financial controls. CFG has also published a 'Charities Counter Fraud Checklist', which sets out ten key questions charity trustees should consider when introducing measures to tackle fraud. http://bit.ly/2xbQaon

New guidance for independent examiners of charity accounts

The Charity Commission for England and Wales has issued updated guidance for independent examiners of accounts for charities with a gross annual income of £250,000 or less. The updated guidance clarifies the directions an examiner must follow when carrying out an independent examination. In particular, it requires examiners to check whether trustees have made an assessment of the charity's position as a going concern when approving the accounts, as well as checking that trustees have considered the charity's financial circumstances. Examiners must also declare any conflicts of interest that could prevent them from being independent, such as personal relationships with the trustees of a charity or being a major donor. The provisions in the new guidance will be mandatory for independent examiner reports signed and dated on or after 1 December 2017. http://bit.ly/2yFnbW0

CFG launches free treasury support service

Charity Finance Group has launched a new email support service to help charities better manage their finances. The service will help organisations, particularly smaller charities, to access support to answer their treasury or cash management questions. It will also provide advice about how trustees can manage their cash funds, deal with issues relating to foreign exchange and improve their financial management. Through the service, trustees will also be able to ask specific financial questions via email and have access to frequently asked questions that have been answered by finance experts. The service is free to use and available to all charities. http://bit.ly/2xQ4b84

Cost of transferring academies to new trusts revealed

The latest figures from the Department for Education have revealed that it awarded more than £16 million in grant funding to support academies to transfer to new trusts between 2013/14 and 2016/17. Overall, 135 academies were awarded grants each worth an average of £118,600 to transfer to a different trust. However, the figures exclude the cost of clearing academy deficits, capital costs and statutory redundancies, which suggests that they underestimate the total cost of transferring academies to transfer trusts. The figures have also indicated that a total of 332 academies transferred trusts in the four years to 2016/17, of which 197 (59%) did not receive grant funding. In addition, the number of academies transferring trusts has grown significantly, up from 15 academies in 2013/14 to 165 academies in 2016/17. http://bit.ly/2xZ2rvz

new guidance to help charities create Board Assurance Framework

The Institute of Chartered Secretaries and Administrators (ICSA) has published a guidance note on how to create a board assurance framework (BAF) for charity trustee boards. A BAF is a single document that collates information about a charity's strategic goals and the risks it faces, such as failure to meet reporting requirements. According to ICSA a BAF can reassure trustees that the trustee board's decisions are being implemented and meeting intended outcomes. The new guidance note complements existing ICSA guidance for charities that covers topics such as trustees' roles and duties, how to carry out due diligence on prospective trustees, and charity mergers.

According to ICSA, the benefits of a BAF include a clear and comprehensive overview of the risks faced by the charity, and how these risks are managed and mitigated. The BAF will highlight risk areas where the charity's control mechanisms are lacking and help the trustee board to strengthen their control mechanisms. The BAF will also enable the board to maximise the charity's resources, by focusing them on risk areas of greatest need.

Common risks faced by charities include incompetent or negligent trustees, insufficient knowledge of trustees' legal duties, and inaccurate or incomplete annual reports and accounts. For example, in May 2017, the Charity Commission revealed that a number of 'double defaulters' (meaning charities that had already failed to submit adequate accounts for two consecutive years) were still failing to meet their accounting requirements. Of the 27 charities in question, two had filed accounts with inadequate external scrutiny, six had filed accounts with Companies House but not with the Charity Commission, and another six had closed down without informing the Charity Commission of the closure.

Read more at: http://bit.ly/2fN1ekc

SORP Committee to establish three working groups to consider changes

The committee responsible for guiding the development of Statements of Recommended Practice (SORP), which are the charity sector's accounting rules, has established three working groups to consider specific changes to the charity SORP.

The first working group established by the SORP Committee will consider introducing a third tier into the charity SORP, in order to reduce reporting requirements for smaller charities. The current charity SORP is two tiered. Charities in the top tier (meaning those with an income exceeding £500,000 per year) are required to provide additional disclosures. A consultation carried out between May and Dec 2016 examined whether a third tier for larger charities should be introduced, but feedback revealed there was widespread concern that the reporting requirements on small charities are currently too burdensome.

The second working group will address concerns about the use of 'boilerplate' statements in governance disclosures. These statements are often used by charities to meet their reporting requirements. However, they have been criticised as of little practical use.

The third working group will consider the forthcoming introduction of 'key facts summaries' for charities. As proposed during a consultation held between May and December 2016, key facts summaries will provide the general public with 'a simple summary containing key information' about a charity. SORP Committee co chair Nigel Davies has confirmed that there will be no legal requirement for charities to produce a key facts summary. However, doing so will be considered best practice. The information to be provided in the summary has not yet been decided, but could include income, expenditure, and charitable expenditure as a proportion of total income.

Read more about the working groups at: http://bit.ly/2khzJki

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If you would like further information on any of the articles in this newsletter please contact;

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