

THOMSON COOPER
ACCOUNTANTS



CHARITY NEWS



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Our Charity News includes useful guidance on fraud, public confidence in the sector and board diversification. We also consider the impact of Update Bulletin 2 on the SORP, the implication of this year’s Budget on charities and other pertinent issues giving you the inside track on the sector's current hot topics and latest guidance.







The newsletter is applicable to the whole of the United Kingdom and makes reference to the three UK charity regulators:

- the Charity Commission for Northern Ireland (CCNI)
- the Office of the Scottish Charity Regulator (OSCR) and
- the Charity Commission for England and Wales (CCEW).

All the articles may be of interest however to aid you we have included the following key:

Key

	United Kingdom
	England
	Wales
	Scotland
	Northern Ireland

Hot topics

How much do the public trust charities?



It is fair to say that 2018 has seen a lot of scrutiny of the charity sector with some very high profile names in the spotlight. It is therefore perhaps not surprising that the CCEW research into the public’s trust of charities came up with some interesting results.

Confidence levels low

The research found that public confidence in charities is currently 5.5 out of 10. This compares to 5.7 out of 10 when the research was last carried out in 2016 and 6.7 out of 10 in 2014. It should be noted that the research was carried out immediately after the Oxfam news hit the press. This still compares favourably with groups such as MPs and journalists, who score below 4 out of 10!

It is also interesting to note that trust is highest among young people and declines as you move up the age range.

When asked why trust has declined, respondents quoted the recent media reports and that too much charity money is being spent on advertising, wages and admin as being the two main reasons.

Other issues

Other findings from the research included that 58% of respondents think that charities perform an essential or very important role in society. The main factors affecting the issue of trust are ensuring that donations reach the end cause, as well as making a positive difference.

Has your charity considered how a reduction in public confidence could affect donations and implications for any long term viability?

Guidance: goo.gl/c8fPD4

Joint registration portal shelved



The government has decided not to pursue plans to develop a joint CCEW and HMRC portal for charity registrations.

The rules at present require charities to register with the CCEW and then again with HMRC for Gift Aid and other purposes. The plan (announced back in 2013) was to streamline this process to reduce the burden on charities and improve information sharing. However,

having considered this, the government has concluded that information sharing has improved in the interim and as most charities have a long gap between their CCEW and HMRC registrations (around nine years) there was unlikely to be much benefit from a joint registration portal.

Guidance: goo.gl/BEz8xu

Fraud



The CCEW has issued an alert to charities following a National Fraud Intelligence Bureau alert highlighting the insider threat from fraudsters and cyber criminals.

Research from the CCEW published earlier in the year found that in the vast majority of cases where fraud was committed in charities, the primary enabling factor was the lack of appropriate internal controls in place and being consistently applied.

The lack of controls particularly focused around excessive trust or responsibility being placed on one individual, along with a lack of challenge or oversight.

The impact of fraud on a charity can vary, but will typically include reduced service provision, a loss of funding/income, damage to team/organisational morale, an adverse effect on the charity's reputation and possible closure of the charity.

Guidance

Both OSCR and the CCEW have published guidance to help charities protect themselves from fraud - a must read for all trustees. If you would like any further information on applying appropriate safeguards please contact us.

Following Charity Fraud Week, the CCEW has published a number of helpsheets and e-learning videos to:

- raise awareness of the key risks affecting the sector
- promote and share good counter-fraud practices
- promote honesty and openness about fraud.

Guidance: goo.gl/yQmDx8 goo.gl/TBFUoH
goo.gl/rMaKUs goo.gl/SjtRa1 goo.gl/uNjUug

Britain's Secret Charity Cheats



In the summer the BBC featured five episodes of Britain's Secret Charity Cheats in their daytime schedule.

The programmes featured examples of fraudsters either purporting to be a charity or charity insiders and how

they committed their frauds. The programmes also featured some 'good news' stories about the sector.

The timing was again very pertinent given the environment and is an interesting view for all charity trustees.

Clips from the programmes are available on the BBC website.

Guidance: goo.gl/EPyi8Y



Automatic disqualification rules



On 1 August 2018 the law in England and Wales changed to extend the scope of who is disqualified from running a charity. As a result of this change, senior manager positions (for example chief executives and finance directors and equivalent roles) are now included. If you are in a trustee or senior manager position, ensure you have read the guidance and if needed, apply for a waiver.

Charities need to update their processes before appointing for these positions and ensure staff already in place have considered the new rules. CCEW have produced sample declarations for senior managers and trustees which could be used for existing staff and trustees.

Guidance: goo.gl/es9hdc

Charity annual return



All charities registered in England and Wales must submit an annual return every year, no later than 10 months after the end of their financial year. Worryingly a CCEW report has shown that 40% of small charities are providing inaccurate financial information in their annual returns.

Charity trustees have a legal obligation to keep the charity's registered details up to date. On the 12 November 2018 the service used to update charity details changed and all charities are now required to check and update their details before they can access the annual return. The details of trustees such as names and contact details will need to be up to date and each trustee must not be disqualified as acting as a trustee. The service:

- guides trustees through several screens that show the charity's details
- highlights missing information that needs to be provided. This will be tailored to the individual charity and will reflect how up to date the details are on the register.

The CCEW 2018 annual return service has been available since the end of August. This tailored annual return includes new and enhanced questions and charities should be prepared as it may create extra work. Certain questions are optional this year to give charities time to put in place systems to enable efficient collection of the necessary information.

Overseas risk

One of these optional questions is surrounding how charities transfer and monitor their funds sent overseas. This is a risky area and it is important that charities appropriately manage this risk. The questions about the methods of transferring money outside the regulated banking system, and about monitoring controls and risk management will be optional in the 2018 annual return but will be mandatory for 2019 annual returns onwards.

Breakdown

CCEW is seeking to gain a better understanding of income from outside the UK and has introduced questions about the breakdown of sources of income from each country a charity receives funds from. As charities may need to make changes to their financial systems to capture this data, these questions are optional for 2018 but mandatory for 2019.

Salaries

Thirdly, a breakdown of salaries across income bands, and the amount of total employee benefits for the highest paid member of staff will need to be included in the 2018 return. This additional information is being included due to the public concern over high pay in the sector. The information on benefits given to the highest paid member of staff will not be published on the public register.

Guidance: goo.gl/P6sfb2 goo.gl/BrnuSL

Developing your board - trustee recruitment and diversity



Research conducted as part of the Taken on Trust report, commissioned by the Department of Digital, Culture, Media and Sport in November 2017, noted that the majority of charity trustees are male, white and retired, the so called 'male, pale and stale' demographic. Since then, the CCEW, the Charity Governance Code and various other commentators have been encouraging charities to step up and improve diversity on their trustee boards.

In a lot of cases, trustees are a self selecting group; who have the time and skills to take up such a post. However there has to be more positive action from current board members to seek out a wider range of people to add breadth and depth to the trustee group.

The research also found that trustees particularly those considering the role or new to it, were often unaware of the role and responsibilities that go with the title.

The CCEW has therefore published a new trustee welcome pack to explain exactly what is expected of a charity trustee. Worth reading for all board members as an introduction or refresher.

Guidance: goo.gl/naXTUV goo.gl/oSjsQ1

goo.gl/MHSzEY



Accountancy and tax update

SORP Update Bulletin 2



SORP Update Bulletin 2 has been published following a consultation period. The Bulletin reflects the updating of Accounting Standard FRS 102 by the Financial Reporting Council 'Triennial Amendments' which was published in December 2017.

Update Bulletin 2 consists of 'significant' and 'clarifying' amendments. Significant amendments are applicable for accounting periods beginning on or after 1 January 2019. Clarifying amendments are noted as applicable for accounting periods beginning on or after the date of publication of the Update Bulletin 2 (5 October 2018). The Bulletin does however highlight that these clarification amendments reflect existing requirements of FRS 102 and are already applicable for charities preparing their accounts in accordance with that Standard.

The three clarification amendments, which are therefore effective now, are as follows:

- comparative information must be provided for all amounts presented in the financial statements and notes unless otherwise stated in FRS 102 and the SORP
- Gift Aid payments, by subsidiaries to their charitable parents after the end of reporting period, are accounted for as a distribution to owners and must not be recognised as a liability at the end of the reporting period unless there is a legal obligation to do so (for example a deed of covenant)
- to remove the undue cost of effort exemption for depreciating assets, comprising of two or more major components, which have substantially different useful economic lives.

As a reminder, Update Bulletin 2 must be read in addition to applying Update Bulletin 1 and the Charities SORP (FRS 102).

Guidance: goo.gl/N7tS24

SORP-making body expanded to include Northern Ireland and Republic of Ireland regulators



The four UK charity regulators will now work together to develop the charity accounting framework to be used across all four jurisdictions. The Financial Reporting Council (FRC) has approved the addition of the CCNI and the Charities Regulatory Authority for the Republic of Ireland as joint members of the SORP-making

body with the CCEW and OSCR. The inclusion of the Charities Regulatory Authority is subject to the SORP being formally adopted by way of regulations for use in the Republic of Ireland.

The SORP will promote high quality reporting by charities whilst respecting local differences and legal requirements. The four regulators will begin developing the new SORP from the beginning of 2019.

Guidance: goo.gl/ZYWi2Q



Standard of accounts - CCEW monitoring review



The CCEW has undertaken one of its regular reviews into the standard of filed accounts.

The findings are somewhat worrying in that over 25% of the accounts reviewed were defective in some respect. The deficiencies ranged from missing narrative and pages through to accounts which did not even balance!

Such deficiencies not only look bad but can have longer term effects on the charity and its credibility. It is therefore important that trustees and advisors take all reasonable steps to ensure the quality of their submissions.

Guidance: goo.gl/3cYTgg

VAT and temporary employees



VAT is always an area of difficulty for charities, with most unable to reclaim VAT on purchases.

A recent Court of Appeal case has confirmed that where organisations are paying a staffing agency for employees (usually temporary contract workers), VAT is chargeable on the staff remuneration element by the agency.

While this will have a cash flow impact on all business, those registered for VAT will of course be able to reclaim this input VAT.

However, charities employing temporary workers are unlikely to be VAT registered and therefore will see an additional cost of using such agencies.

Guidance: goo.gl/yp5Mev

Gift Aid - simplification



The government has published details of its plan to simplify the Gift Aid system and draft legislation has been issued.

The main impact will be on the amount of benefit a donor is allowed to receive in return for a donation to a charity. The plan is that on donations of up to £100, a benefit of £25 can be provided (as is currently the case). For gifts exceeding £100, charities can offer benefits up to the sum of £25 and 5% of the amount of the donation that exceeds £100, up to a total value of £2,500. This is both more generous and simpler than the current regime.

The new limits replace the current mix of monetary and percentage thresholds that charities have to consider when determining the value of benefit they can give to their donors without losing the entitlement to claim Gift Aid tax relief on the donations given to them. The draft legislation is intended to make Gift Aid claims easier to administer for the claiming charity.

Guidance: goo.gl/3rtLXh

Budget 2018 and charities



The Gift Aid Small Donations Scheme (GASDS) applies to small charitable donations where it is impractical to obtain a Gift Aid declaration. GASDS currently applies to donations of £20 or less made by individuals in cash or contactless payment. It was announced in the Budget that the limit will be raised to £30 from 6 April 2019.

The Budget also included the announcement of an increase in the small trading tax exemption limits for charities from £5,000 per annum to £8,000. Where the turnover is greater than £5,000 (rising to £8,000), the limit is increased to 25% of the charity's total incoming resources, subject to an overall upper limit of £50,000 (rising to £80,000). Finance Bill 2018-19 will include the legislative provisions to increase these limits from April 2019.

The retail Gift Aid scheme will allow charity shops using the scheme to send letters to donors every three years (rather than every tax year) when their goods raise less than £20 a year. This will significantly reduce the administration burden for charities. This will be effective from April 2019.

Guidance: goo.gl/qRWC5x goo.gl/XcGmwg

Gift Aid - ineligible donors



The Charity Tax forum has noted that 8% of donations had Gift Aid incorrectly added by ineligible donors generating a tax gap of up to £180 million. As expected, HMRC has reported that it will not approach charities to cover any shortfall in tax paid by donors to cover any Gift Aid declared, as this shortfall is the responsibility of donors.

It is expected that the HMRC guidance will be clarified to reflect this approach and also to advise charities that Gift Aid claims should include full forenames rather than the sole use of initials.

Guidance: goo.gl/ygCT1J

Legislative update

Post GDPR - how is the sector coping?



On the 25 May 2018, the General Data Protection Regulation (GDPR) came into force. The aim being to bring data protection legislation into line with how personal data is used in today's world.

There have been a number of stories and hiccups but in general the sector seems to have coped well.

The important issue now is not to let all the hard work drift away. GDPR is an ongoing commitment and charities need to make sure that it is at the centre of all their data gathering activities.

Guidance: goo.gl/T9KJEp



Information Commissioner audits charities



The Information Commissioner (ICO) has conducted audits of eight charities, reviewing areas such as incident reporting, data sharing, consents etc. The eight charities took part on a voluntary basis.

The findings were that while all the charities had good governance structures and had adopted opt-in structures for marketing purposes, there were instances of lack of routine compliance checks on data protection, direct marketing and data processors.

With GDPR, these matters become even more important and all charities need to consider their compliance in this area.

Guidance: goo.gl/Lpvdc0



Charity structure - have you got it right?



The CCEW has published guidance for Community Interest Companies (CIC) looking to convert to a Charitable Incorporated Organisation (CIO).

This comes in a year when the ability to convert from a Charitable Company to a CIO was also introduced and serves as a reminder for all charities to consider whether they are adopting the most appropriate legal structure for their activities and risks involved.

The Charitable Company/CIO conversion was phased during 2018 but is now available to all Charitable Companies.

Guidance: goo.gl/RTxgH2 goo.gl/9LUNja

Consultations

NCVO published draft Code of Ethics



Another reaction to the safeguarding issues that hit the public's attention earlier on the year is the publication of a draft Code of Ethics for charities by the National Council for Voluntary Organisations (NCVO).

The proposed code covers safeguarding, conduct within charities, employment practices, dignity in the workplace and treating individuals with respect and is based on four core principles; Beneficiaries first, Integrity, Openness and The Right to be Safe.

The consultation on the draft code has closed.

Guidance: goo.gl/7zwwtR



New draft Code of Fundraising Practice



The Fundraising Regulator has launched a consultation on revisions to the Fundraising Code.

The Code in its current form was launched in 2016 when the Fundraising Regulator was formed as a result of the Etherington Review.

At that stage the Code in effect consolidated a number of existing sets of guidance, rather than starting from a blank sheet of paper.

The Fundraising Regulator feels it is now time to look at the content of the whole Code including a Plain English review of the rules, a restructuring of the sections and glossary of terms.

The consultation has closed.

Guidance: goo.gl/qYkpKm

Scotland's Governance Code for the Third Sector



Scotland's Third Sector Governance Forum has created a Governance Code for the Third Sector which sets out the core principles of good governance for the boards of charities, voluntary organisations and social enterprises in Scotland.

The draft version of the code was consulted on in July 2018 and further to its feedback, a final version of the Code was launched in November 2018 at their Trustees Week Conference.

Guidance: goo.gl/KyKDVP goo.gl/FcmytP
goo.gl/eH9sQJ

