

ICAEW WEBINAR 1 NOVEMBER 2021

How to ensure your charity board is financially competent



Speakers

Sudhir Singh

Partner and Head of Not
for Profit

Helen Blundell

Charity Director



Webinar Contents

What's the concern?

Key attributes

Securing commitment

Avoiding

complacency

Establishing skills

Instilling competency

A call to action



What's the concern?

Surveys undertaken by the Charity Finance Group and MHA:

- Beneficial for their trustees to have a better understanding of strategic financial governance matters.
- It was important to have more than one person on the trustee board to be engaged with the charity's finances.

Academic research undertaken by NCVO, Cranfield Trust and others supports these findings

“

Our findings suggest that there might be something of a gap between a trustee's perception of and actual knowledge of their legal duties”.

A key recommendation was “that more work be done to encourage trustee boards to actively embrace the introduction” of different people, new ideas, skills and experience to trustee boards...”



Key attributes



For a board to be highly financially competent an appropriate goal is engagement on financial matters universally across all trustees.

This can be broken down as:

- 1 Engagement** – Addressing financial issues appropriately and effectively – securing commitment and avoiding complacency.
- 2 Universality** – All trustees have joint and several responsibilities – no-one can abdicate their responsibility – that involvement needs to be wholeheartedly and conscientiously demonstrated by establishing skills and instilling competency.

Diagnosing the cause



Inadequate engagement:

understanding of personal and group role, sufficient involvement, personal and corporate attitudes, motivation, governance leadership, and governance structures.

Insufficient universality:

knowledge, ability, experience, fear, resourcing, induction and training.



***Commitment and
Complacency***



***Skills and
Competency***

Outcome	Barriers	Enablers
Engagement	Commitment	<ul style="list-style-type: none"> ○ Role descriptors ○ Trustee contracts ○ Trustee and governance appraisal
	Complacency	<ul style="list-style-type: none"> ○ Effective chairing ○ Regular performance review – including external ○ Governance codes and sector tools ○ Comprehensive induction
Universality	Skills	<ul style="list-style-type: none"> ○ Skills audit ○ Informed trustee recruitment and induction ○ Trustee training budgets ○ Continuing trustee development ○ Management support
	Competency	<ul style="list-style-type: none"> ○ Competency assessment ○ Personal reflection ○ Competency framework ○ Organisational culture



Securing commitment

If trustees fail to devote sufficient time and effort, what can be done to encourage greater commitment?

There seems to be a widespread acceptance of mediocracy, or at least a deficit in outstanding performance.

Actions to consider



Establish a trustee contract

- a) Time commitments
- b) Expectations for initial induction
- c) Acceptance to undertake training and continued trustee development,
- d) Agreement to attend events
- e) Level of preparation for meetings

Carry out appraisals of performance

- a) Individual trustees
- b) Committees
- c) The Board as a whole

Include quantitative measures as well as qualitative assessments including the quality of decisions made by trustees.



Avoiding complacency

- Are there trustees that can't be bothered to discuss finance?
- Is active complacency rife in the sector?
- Is there subconscious complacency?
- Do trustees just don't recognise their failings?





Why might this be?

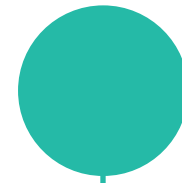
- a) Could there be an unwillingness to accept failings?
- b) Perhaps trustees don't know what good looks like?
- c) What could shake up this virtue-less circle?
- d) Could self-reviews help?

Beware the “don't know what you don't know” conundrum

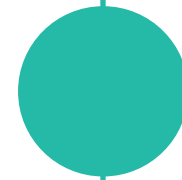


If an informal self-review may not be sufficient, charities may need something more robust to stir things up.

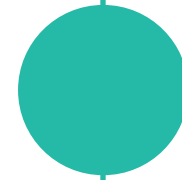
Some options include:



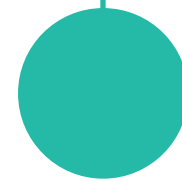
A formal internal review of performance that challenges effectiveness. Use the 2020 Good Governance Code ?



A formal external review to provide an independent challenge. Every 3 years recommended by 2020 Good Governance Code



More formal trustee induction and training



The Charity Governance Code adopts an “apply or explain” approach



Establishing skills

Is lack of skills a serious concern?

Many charities do struggle to recruit trustees with appropriate finance skills.

The whole board does not need higher level finance skills.

Equal responsibility does not mean all need equal levels of skills and competencies

What should you do next?



1. Recruit

- a) Skills audit or assessment should be undertaken regularly
- b) Charity Commission guidance CC30 – Finding New Trustees: What Charities need to know.
- c) ICAEW Communities

2. Train

- a) All individual trustees likely to need training and development
- b) Aspects of charity finance that are unique
- c) Establish a realistic budget for trustee training every year
- d) Sector organisations - such as ICAEW, CFG and professional firms and Charity Commission guidance
- e) Guidance, instruction, clear trustee papers, and personal engagement “on the job”.



Instilling competency

In the Charity Governance Code the starting point is the Foundation Principle – the trustee role and charity context, bringing understanding and commitment to their role and responsibilities in the situation of their particular charity and what it does.

Aim is the successful application of skills.





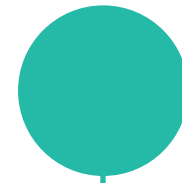
What makes someone competent?



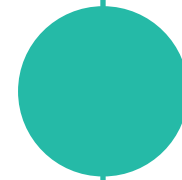
- 1 Having relevant skills
- 2 Understanding how to apply their skills
- 3 Recognising when appropriate knowledge is held



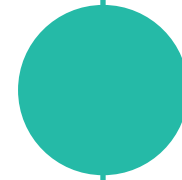
So how do trustees ensure they are competent?



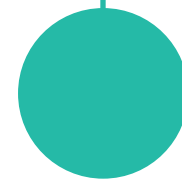
Use a competency framework?



A simple list of both necessary areas and desirable areas of competence



A culture of honest feedback



Appraisal of the competency of individual trustees





Financial competencies

1. Financial regulatory framework for charities
2. Trustees responsibilities and duties
3. Charities Statement of Recommended Practice (SORP)
4. Key accounting considerations – fund accounting; income recognition, non-exchange transactions, Public Benefit Entities rules, related party transactions
5. Risk Management
6. Reserves policies
7. Other key board policies – fraud; estimates and judgements, delegated authorities (and operational e.g. grant making)
8. Fundraising regulations
9. Tax-efficient fundraising and gift aid
10. Property transactions
11. VAT and taxation

A call to action



1. Strong and effective engagement by trustees in finance makes a tangible difference to the impact that a charity can have on its beneficiaries
2. Recognition that it is not only systems and process that are important, but the softer areas of attitudes and behaviours.
3. Address the gap between the support available and the uptake
4. Use this framework to encourage actions



QUESTIONS?

Contact details:


sudhir.singh@mhllp.co.uk

Helen.Blundell@mhllp.co.uk

MHA Charity Trustee Hub:

<https://mha-uk.co.uk/charity-trustee-hub/>

 @MHUpdates

 MHA MacIntyre Hudson

Now, for tomorrow

 An independent member of
bakertilly
INTERNATIONAL