



Diocese of St Albans Trustee Training Workshop

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Welcome and Introduction



Amanda Francis

- ⦿ **Partner at Buzzacott with responsibility for the audit of the Diocesan Board of Finance accounts;**
- ⦿ **Have been at Buzzacott for 35 years and specialised in charities for more than 30 years;**
- ⦿ **Work with a significant number of faith-based charities;**
- ⦿ **Trustee of three charities – Royal Star and Garter Homes; London Institute of Banking and Finance; and Buzzacott Stuart Defries Memorial Fund.**

Trustees' Responsibilities – An Overview



Parochial Church Councils (PCCs)

- ⦿ A PCC is the executive committee of a Church of England parish and consists of clergy, churchwardens and representatives of the laity.
- ⦿ Legally it is responsible for the financial affairs of the parish and maintenance of its assets and promotion of the mission of the Church.
- ⦿ **A PCC is always a charity.** Since 2008, under the Charity Commission's "The Excepted Church Charity Programme" PCC's with income in excess of £100,000 are required to register with the Charity Commission.
- ⦿ **The members of all PCCs, whether registered or not, are charity trustees.**
- ⦿ The Parochial Church Councils (Powers) Measure 1956, as amended, defines the principal functions and powers of the PCC and is akin to its governing document.

What is a charity trustee?

Charity trustees are the people who serve on the governing body of a charity. They may be known as trustees, directors, board members, governors or committee members. They are responsible for the stewardship of the charity's assets and resources and for controlling the management and administration of the charity. Trustees, by definition, are members of key management.

Charities and changing public expectations

- ⦿ Recent issues surrounding charities mean that the public is less inclined to look favourably on charities and give them “the benefit of the doubt” (charity fundraising; Kids Company; Oxfam; The President’s Club)
- ⦿ Religious charities face damage to reputation due to IICSA and the focus on the Church generally
- ⦿ Faith based charities working in an era of increased secularisation and anti-religious sentiment
- ⦿ The Charity Commission is shining the spotlight on charity governance and the quality of trusteeship
- ⦿ Charity trustees need to be able to demonstrate an understanding of their duties
- ⦿ Higher moral and ethical standards – not a matter of ensuring legal compliance only
- ⦿ There is no such thing as a “private charity”!!

All of the above highlight the growing need for charities and their trustees to demonstrate good governance

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Kids Company

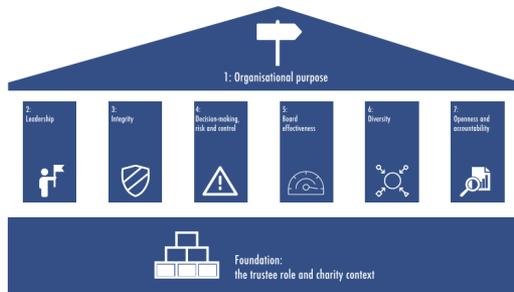
A perfect case study! The key lessons include:

- ⦿ **Trustees' skills and experience**
- ⦿ **Trustees' willingness to question and challenge**
- ⦿ **Meeting and talking to professional advisers**
- ⦿ **Communication and openness between trustees and their staff**
- ⦿ **Safeguarding the charity's reputation: Handling complaints and safeguarding issues**
- ⦿ **Dominant personalities and accepting joint responsibility**
- ⦿ **Conflicts of interest**
- ⦿ **Knowing what could go wrong and being confident key risks are mitigated**
- ⦿ **Financial solvency**

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Two key documents



© Charity Governance Code

© CC3 – The Essential Trustee



GUIDANCE

The essential trustee: what you need to know, what you need to do



Code of Good Governance

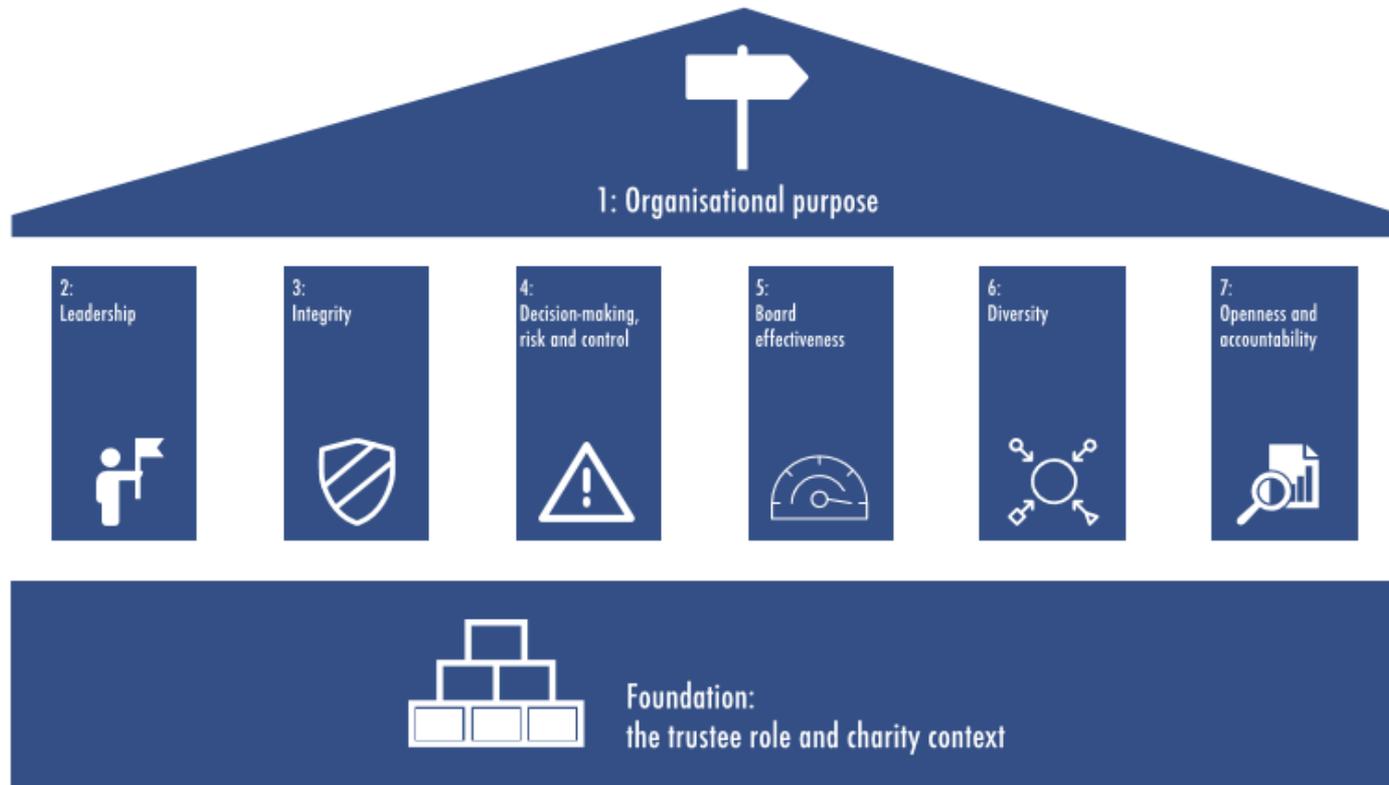
⦿ Code of Good Governance

- Help trustees provide strong leadership
- Enhance decision making
- Demonstrate accountability

⦿ Seven high level principles

- Universal and applicable to all charities

Charity Governance Code – A snapshot



Charity Governance Code – The 7 principles

1. The charity is clear about the charity's aims and ensures that these are being delivered effectively and sustainably.
2. Every charity is led by an effective board and provides strategic leadership in line with the charity's aims and values.
3. The board acts with integrity, adopting values and creating a culture which helps achieve the organisation's charitable purposes. The board is aware of the importance of the public's confidence and trust in charities, and trustees undertake their duties accordingly.
4. The board makes sure that its decision-making processes are informed, rigorous and timely, and that effective delegation, control and risk-assessment, and management systems are set up and monitored.
5. The board works as an effective team, using the appropriate balance of skills, backgrounds and knowledge to make informed decisions.
6. The board's approach to diversity supports its effectiveness, leadership and decision making.
7. The board leads the organisation in being transparent and accountable. The charity is open in its work, unless there is good reason for it not to be.

Overall responsibility and eligibility

Trustees have ultimate responsibility for directing the affairs of the charity, and ensuring that it is solvent, well run, and delivering the charitable outcomes for which it has been set up.

To act as trustee you must be:

- ⦿ Eligible to serve
- ⦿ To act as a trustee or a member of the PCC you must have been appointed properly and know when your appointment ends

Duties of trustees



Public benefit



- ⦿ Supporting others
- ⦿ Supporting the broader Church
- ⦿ Impact – “*bang for your buck*”
- ⦿ Do not hide your light under a ...

Key duties and obligations of charity trustees

The Essential Trustee: what you need to know, what you need to do (Charity Commission guidance CC3).

Overriding duty is to advance the purposes of the charity.

*“to be a trustee requires time, understanding and effort.....
Good intentions aren’t enough to fulfil your responsibilities”*

Charity Commission



GUIDANCE

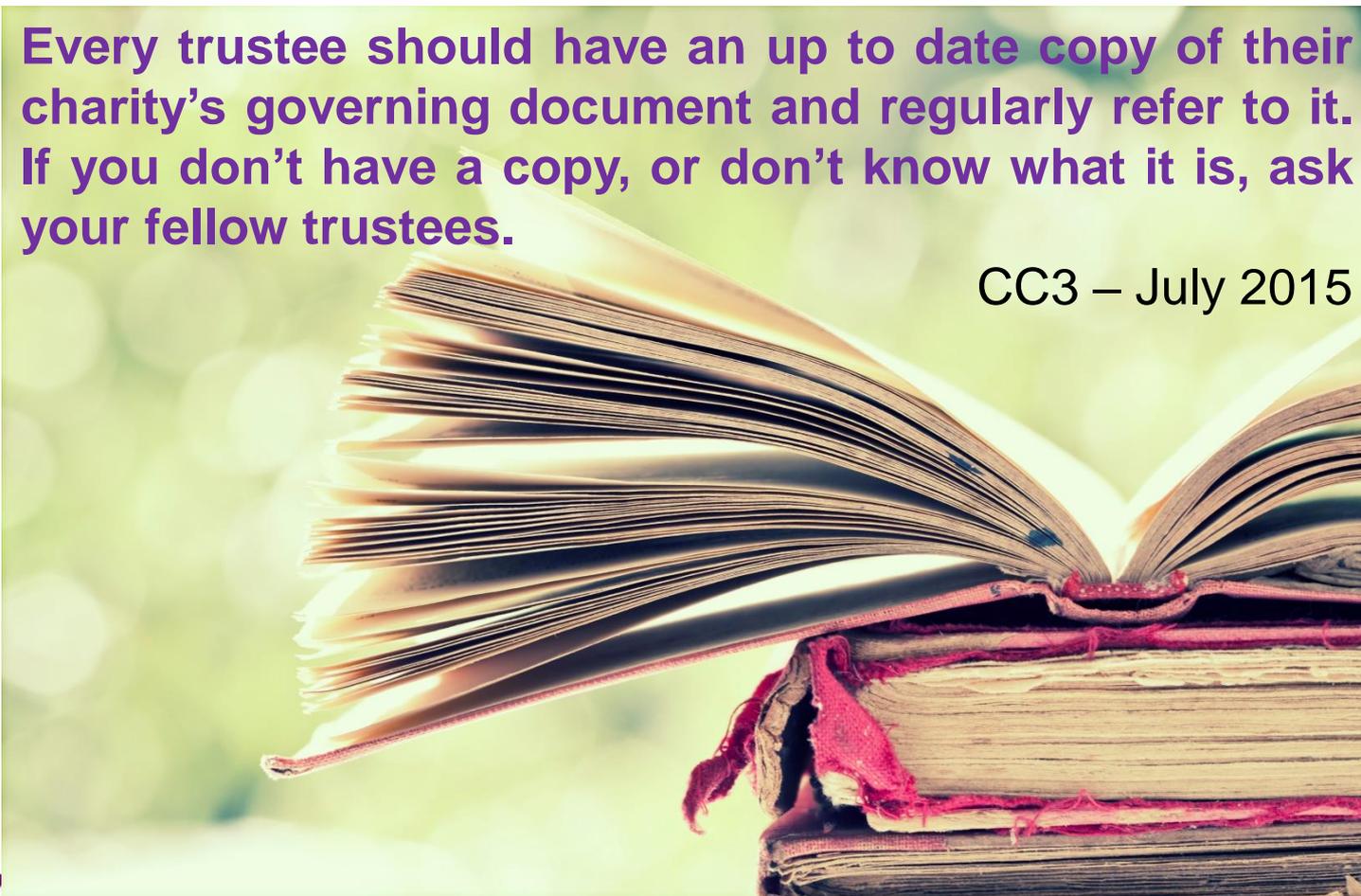
The essential trustee: what you need to know, what you need to do



Ensuring the charity is carrying out its purpose

Every trustee should have an up to date copy of their charity's governing document and regularly refer to it. If you don't have a copy, or don't know what it is, ask your fellow trustees.

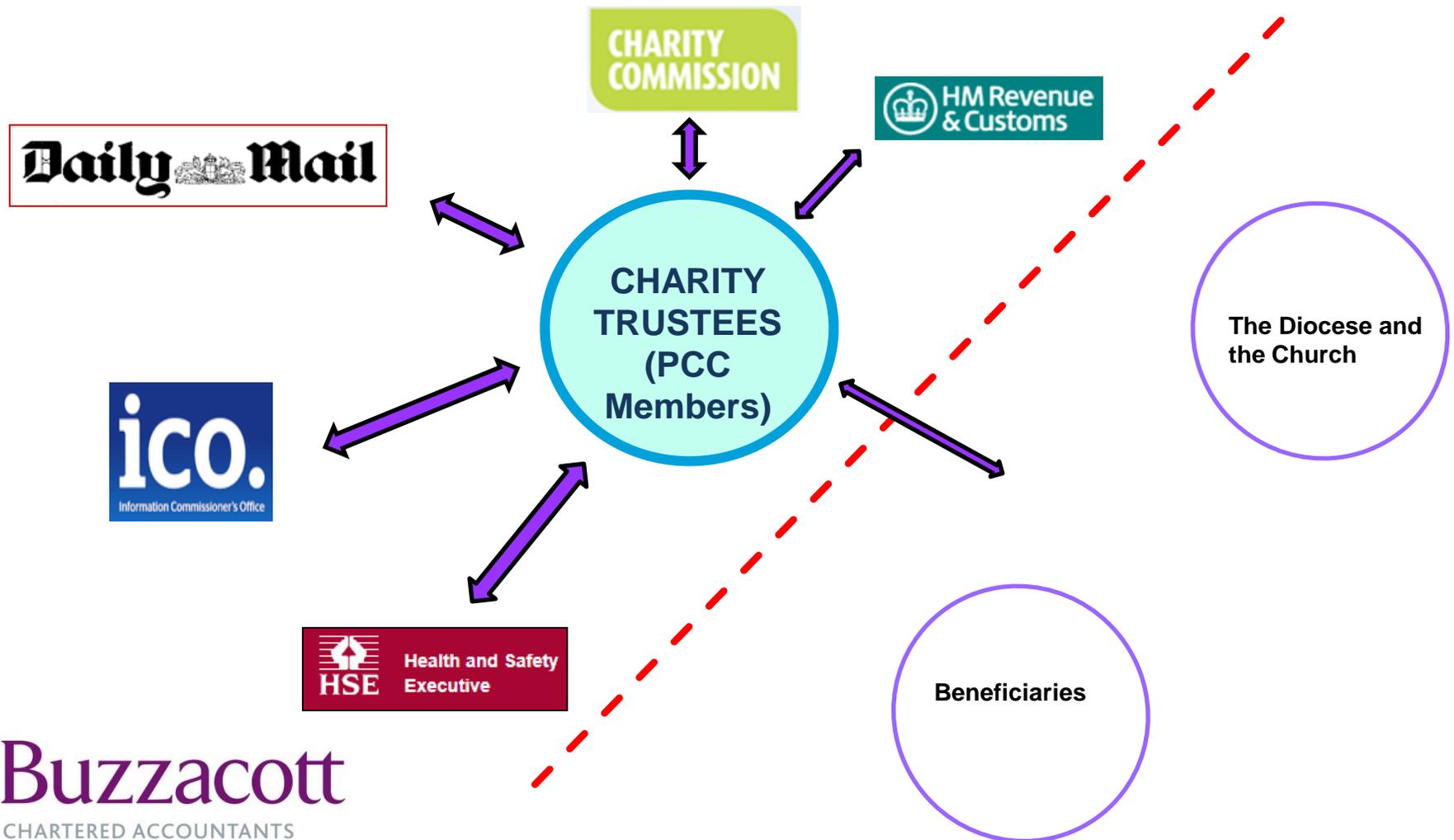
CC3 – July 2015



Compliance with the regulatory landscape

- ⦿ **Complying with the governing document**
- ⦿ **Remaining true to charitable purpose and objects**
- ⦿ **Compliance with charity law**
- ⦿ **Prepare reports, accounts and annual returns**
- ⦿ **Compliance with the requirements of other laws and regulators**

Compliance with the regulatory landscape



Acting only in the best interests of your charity i.e. the PCC

- ⦿ **Independent decision making and accepting collective responsibility**
- ⦿ **Make balanced and adequately informed decisions, balancing short and long term objectives**
- ⦿ **Board engaging with safeguarding issues**
- ⦿ **Active discussion of policies & procedures**
- ⦿ **Conflicts of interest and keeping the charity separate – don't blur the boundaries : Declare; Prevent; Record**
 - Personal benefits : avoid or authorise
 - Written agreements : data, name and/or logo, website, premises and staff
- ⦿ **Paper audit trail**

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Duty of prudence

⊙ The principles:

- Income & property must be applied for purposes set out in the governing document
- Act reasonably & prudently in all matters – safeguard the charity's reputation and do not over commit the charity
- Risk management and internal controls
- Financial reserves and solvency

⊙ Charity assets

- Land & buildings
- Investments
- Managing funds and keeping them safe
- Staff and volunteers

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Reasonable care and skill

- ⦿ **Use reasonable care and skill**
- ⦿ **Risk management**
- ⦿ **Take advice when necessary**
- ⦿ **Duty of care to beneficiaries:**
 - Safeguarding
 - Effective whistle blowing procedures
 - Complaints policy
- ⦿ **Serious Incident Reporting**

Being accountable

- ⦿ **Annual report and accounts**
- ⦿ **Annual returns**
- ⦿ **Reports to the Diocese**
- ⦿ **Serious Incident Reports**
- ⦿ **Reputation**
- ⦿ **Financial planning and reserves**

If things go wrong

- ⦿ **Serious incident reporting and taking steps to minimise further loss or damage**
- ⦿ **Normal position**
- ⦿ **If trustees act negligently, recklessly or deliberately in breach of the law or their duties**
- ⦿ **Reducing risk**

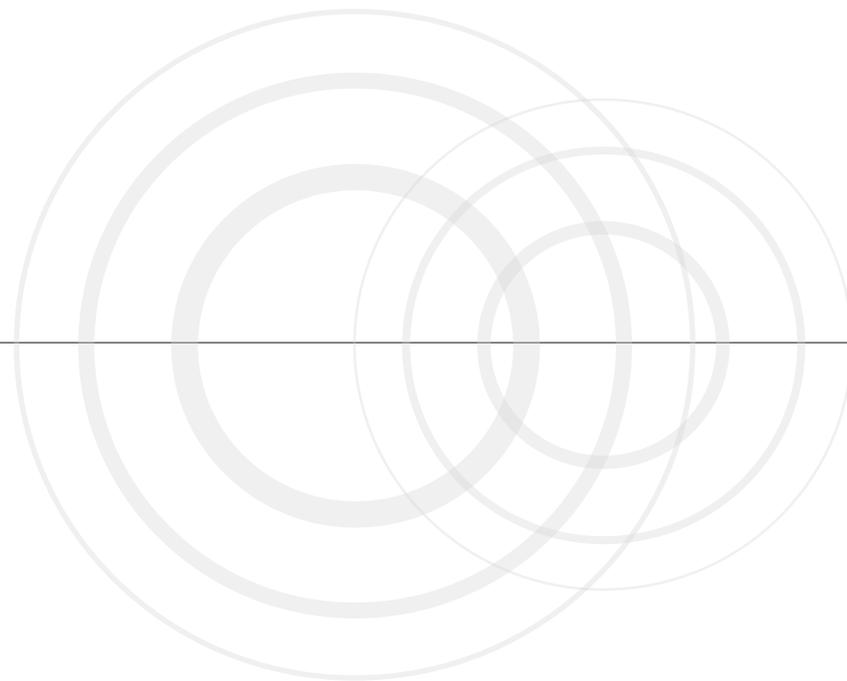
Reducing risk

- ⦿ **Understanding your responsibilities**
- ⦿ **Knowing your governing document**
- ⦿ **Sound induction procedures**
- ⦿ **Dealing with conflicts of interest and maintaining a register of interests**
- ⦿ **Making decisions properly**
- ⦿ **Being prepared to challenge assumptions**
- ⦿ **Asking questions**
- ⦿ **Not being too trusting**
- ⦿ **Regular meetings**
- ⦿ **Taking advice when needed**
- ⦿ **Effective management and financial controls**
- ⦿ **Knowing the laws and regulations that affect the charity**
- ⦿ **Ensuring the charity has the resources needed to meet contractual obligations**
- ⦿ **Taking minutes**
- ⦿ **Retaining key documents**

Minutes

- ⦿ **The approval of the annual accounts (and budgets)**
- ⦿ **Changes in members – appointments and resignations**
- ⦿ **Investment management meetings and meetings with bankers**
- ⦿ **Property and asset purchases and disposals**
- ⦿ **Approval of major expenditure**
- ⦿ **Arrangements with and payments to former members**
- ⦿ **Employment issues – pay increases, disputes, pension arrangements, etc**
- ⦿ **Allegations made by former employees or beneficiaries or third parties**
- ⦿ **Approval of major donations**
- ⦿ **Insurance issues**
- ⦿ **Loans to third parties**
- ⦿ **New banking arrangements or changes to banking arrangements**

Break



Financial responsibilities



Accounts and audit

⦿ Responsibility for:

- Keeping sufficient accounting records
- Preparation of accounts
- Annual report
- Filing
- Appointing examiner/ auditor
- Annual return

Accounts

- ⊙ **Requirements vary with legislative framework**
 - Companies Act 2006
 - Charity law in E&W, Scotland, NI
- ⊙ **Smaller non-company charities (including CIO's) can use Receipts and Payments**
 - Up to £250k of income
- ⊙ **All companies and larger non-companies use “accruals basis”**
 - the **S**tatement **o**f **R**ecommended **P**ractice

Annual Report

- ⊙ **Requirement of Charities Act 2011 (&/ or other UK equivalent)**
- ⊙ **Content set out in SORP**
 - Objectives (legal purposes) and activities including approach to fundraising
 - Achievements and performance
 - Financial review
 - Structure, governance and management
 - Reference and administrative details
- ⊙ **Needs to be fair and balanced**
- ⊙ **Encouraging creativity**

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External Scrutiny

⊙ Audit required if:

- Income exceeds £1 million; or
- Gross assets exceed £3.26m and income exceeds £250,000

⊙ Independent examination required if

- Exemption from audit claimed and income > £25,000

⊙ Appointment by trustees

- Auditor must be appropriately registered
- Independent examiner
 - Suitably experienced if income < £250,000
 - Appropriately qualified if income £250,000 - £1m



Communication with Auditors

⦿ Governed by International Standards on Auditing (UK and Ireland) – ISA 260

- “Management” vs “those charged with governance”
 - Trustees/ audit committee/ senior management team
- Corporate tone – Practice Note 11 interprets

⦿ Main outputs

- Audit planning document(s)
- Statutory audit report
- Post audit report
- Letter of representation



What is an audit?

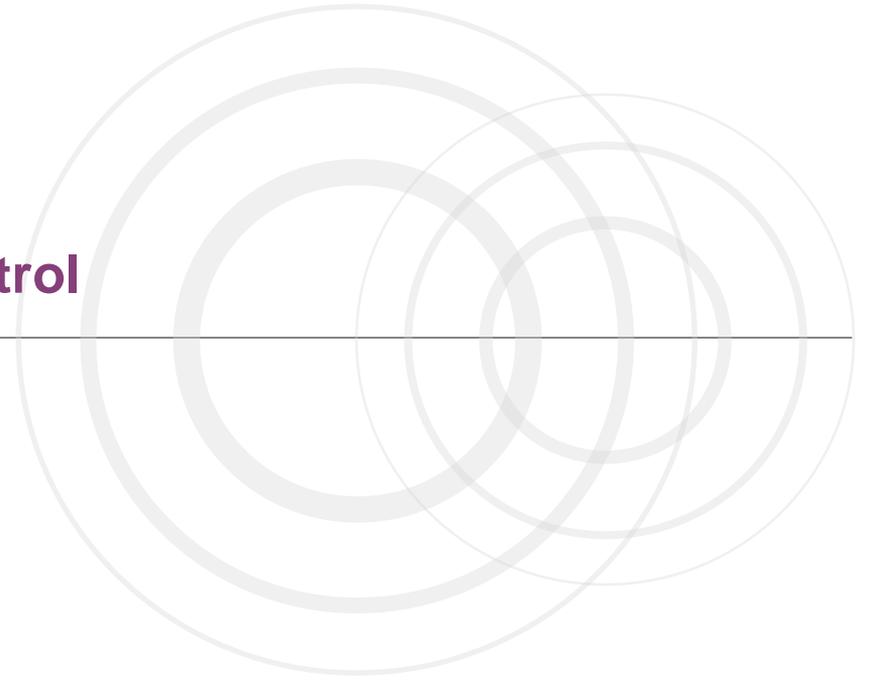
- ⦿ **Opinion on a set of accounts**
- ⦿ **Assessment of audit risks**
- ⦿ **Analytical review**
- ⦿ **Testing:**
 - Compliance
 - Substantive
 - Review
- ⦿ **Compliance and disclosure**
- ⦿ **Consideration of other issues**
- ⦿ **Reporting**



Trustees' Role in Year End Reporting

- ⦿ **Review and feedback on audit strategy**
- ⦿ **Accounting policies and presentation**
- ⦿ **Approval of accounts and report**
 - As a body
- ⦿ **Provision of information and explanations – including letter of representation**
 - With backing assurances from management?
- ⦿ **Consideration of auditors' findings**
 - Including holding management accountable for actions

Risk management and internal control



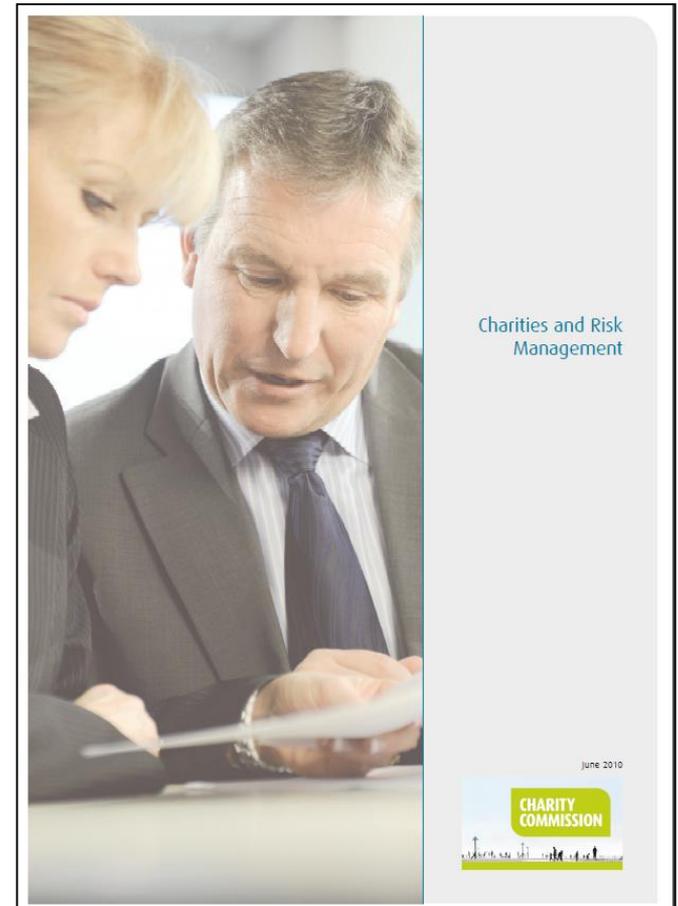
Managing resources responsibly

“Charity trustees should regularly review and assess the risks faced by their charity in all areas of its work and plan for the management of those risks. Risk is an everyday part of charitable activity and managing it effectively is essential if the trustees are to achieve their key objective and safeguard their charity’s funds and assets.”

Charity Commission Guidance (CC26)

SORP 2015, Paragraph 1.46:

Trustees’ report should include “a description of the principal risks and uncertainties facing the charity and its subsidiary undertakings, as identified by the charity trustees, together with a summary of their plans and strategies for managing those risks”.



Risk management

⦿ Risk management is a key part of effective governance

- Contents of trustees' annual report (SORP 2005):
“A statement should be provided confirming that the charity trustees have given consideration to the major risks to which the charity is exposed and satisfied themselves that systems or procedures are established in order to manage those risks.”
- SORP FRS 102 requires trustees to go further and explain the key risks in their report and how they have been mitigated

The classification of risks

Whole risk universe – not just monetary/ financial – although a part of the ultimate impact of risk is financial in most cases. A system of classification is helpful:

- ⊙ Governance risks – e.g. lack of direction or forward planning; trustee body lacks skills or is dominated by one or two people; conflicts of interest; inappropriate legal structure
- ⊙ Operational risks – e.g. service quality; employment issues - poor staff recruitment, training and performance management; doubts over security of assets – building maintenance, computer security;
- ⊙ Financial risks – e.g. adequacy of reserves; inadequate insurance cover; fraud; inadequate investment policies
- ⊙ External risks – e.g. reputation; government policy; economic conditions
- ⊙ Compliance – e.g. poor understanding of relevant laws and regulations
- ⊙ “Black swan” events

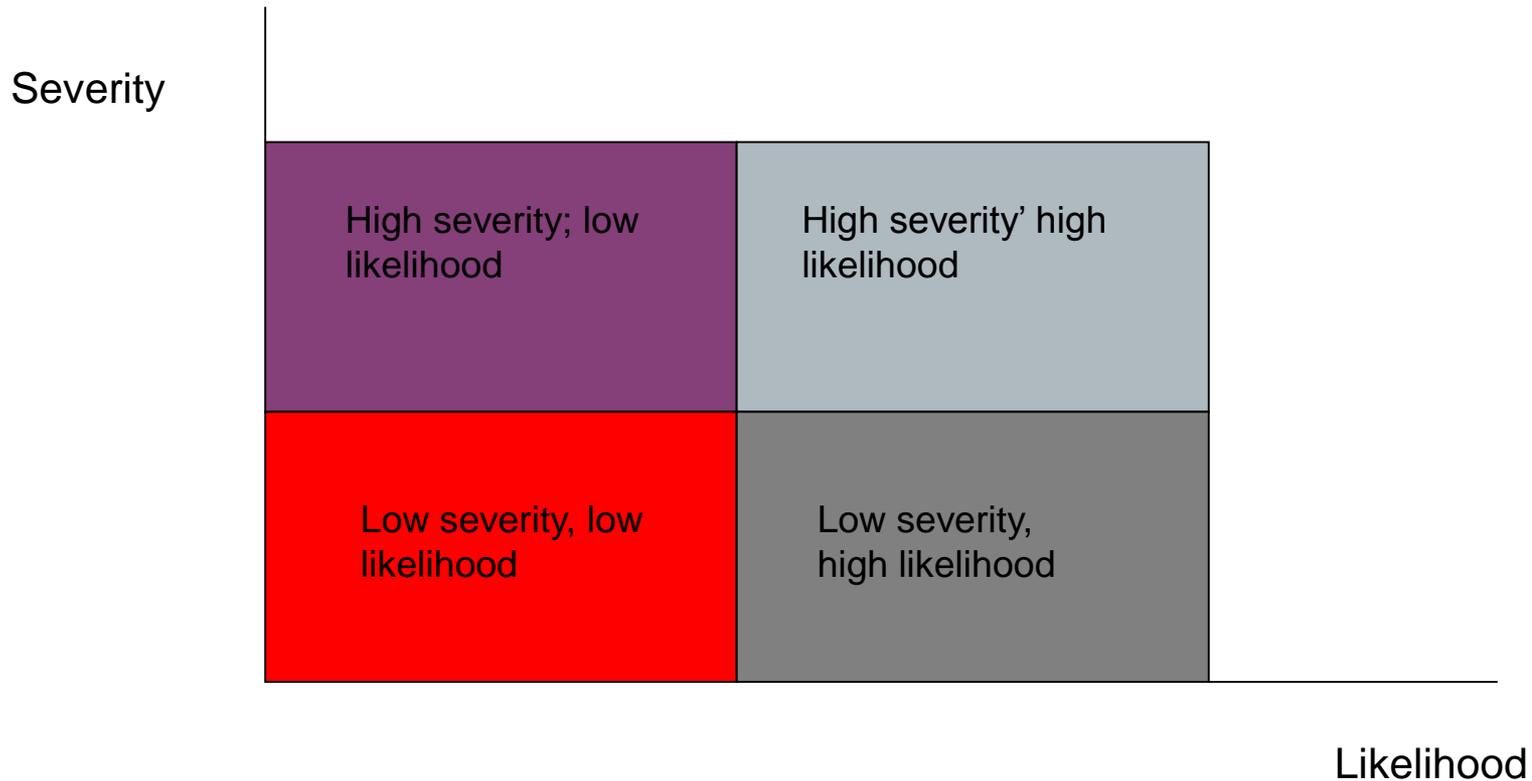
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Risk management – the process

- ⦿ Remember that risks change over time
- ⦿ Trustees and senior management must be involved
- ⦿ Consider likelihood and impact of each identified risk
- ⦿ Risk mapping/scoring system
- ⦿ Likelihood and impact. More emphasis might be given to impact
- ⦿ Major risks – potentially severe impact and high likelihood
- ⦿ Establish controls already in place
- ⦿ Determine actions required

Assessing the risk – the risk map



Risk policy

- ⦿ **The charity's approach to risk**
- ⦿ **The parameters that apply**
- ⦿ **Who has overall responsibility**
- ⦿ **Lay staff responsibility**
- ⦿ **Staff and volunteers' responsibility**
- ⦿ **Serious Incident Reporting**
- ⦿ **Risk Register**

Risk Register

Section: Governance and Management

Risk	L	I	S	Responsibility	Monitoring	Controls/Actions taken	Action Planned
Trustees lack appropriate skills	3	3	12	Trustees	Superior	Trustees to complete a skills audit. Superior to ensure that appropriate professional advice is provided to fill gaps.	Identify future individuals with appropriate skills to join trustee board.

Internal controls

- ⊙ **Closely linked to risk management**
- ⊙ **Charity Commission guidance CC8 – Internal financial controls for charities:**
 - Regular review of controls
 - Monitoring through:
 - Budget
 - Management accounts
 - Special attention to financial crime
 - Fraud
 - Theft
 - Bribery etc

The risk of fraud and error

There is a temptation for religious charities to think they are exempt from the risks of fraud and error

- ⦿ **Fraud is something people have great difficulty in defining but no difficulty in recognising if they come across it. It is increasing at an alarming rate especially via technology**
- **Often committed by people we know**
- **Results from basic control failures**
- **On average carries on for 3 to 4 years before it is detected**
- **Can be almost impossible to detect if it involves collusion.**

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Exploring a few specific risks

- ⦿ **Cash at bank and in hand**
- ⦿ **Employment and payroll**
- ⦿ **IT security**

Controls over cash at bank and petty cash

- ⦿ Authority for opening (and closing) bank accounts
- ⦿ Segregate post opening, recording and banking
- ⦿ Bank all monies received and do so promptly
- ⦿ Cheque signatories and authority levels
- ⦿ Blank cheques and custody of cheque books
- ⦿ Make payments only after sighting supporting documentation and payee details
- ⦿ Encourage receipt direct into your bank accounts
- ⦿ Chase debts (including promised donations and legacies)
- ⦿ Make payments electronically but think about the controls
- ⦿ Cash – how much do you need to hold and where do you keep it?



Employment and payroll

- ⦿ **Failure to operate a payroll**
- ⦿ **Employment: Job descriptions; people profiles; interviews and references; immigration; terms and conditions and the need for consistency; contracts; line management and defining boundaries; performance reviews**
- ⦿ **Payroll: Authorisation of rates; segregation of duties; electronic payment; auto-enrolment**

IT Controls

- ⦿ **Back ups**
- ⦿ **Access to programmes and data**
- ⦿ **Firewalls and virus protection**
- ⦿ **Training of staff and volunteers about scepticism and looking for the unusual**
- ⦿ **Maintenance cover**
- ⦿ **Insurance**



Risk management and internal controls

- ⦿ If used properly, risk management and internal controls are very powerful tools
- ⦿ Most of it is about applying basic common sense
- ⦿ Lead from “the top” - implement routines and systems and enforce them with no exceptions

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Specific areas - reserves

Definition of reserves

- ⦿ That part of a charity's income funds that is freely available for its general purposes (CC19)
- ⦿ Income funds which are to be spent at the trustees' discretion in furtherance of the charity's objects but which are not spent, committed or designated ie they are "free"

What is a reserves policy?

The policy should cover as a minimum:

- ⦿ The reasons why the charity needs reserves;
- ⦿ What level (or range) of free reserves the trustees believe the charity needs;
- ⦿ What steps the charity is going to take to establish or maintain free reserves at the agreed level (or range); and
- ⦿ Arrangements for monitoring and reviewing the policy.

What level of reserves is appropriate?

- ⦿ **No ‘rules’ setting out acceptable level**
- ⦿ **Beware of timing effects – consider defining by ranges?**
- ⦿ **Legal duty to apply charity funds within reasonable time**
- ⦿ **Cushion against future uncertainties**
- ⦿ **Based on realistic assessment of needs and future commitments**

Justifying reserves (CC19)

A charity's reserves policy should be informed by:

- ⦿ Its forecasts for levels of income in future years, taking into account the reliability of each source of income and the prospects for opening up new sources; and**
- ⦿ Its forecasts for expenditure in future years on the basis of planned activity.**

What are your reserves for?

- ⦿ The need to demonstrate sound governance
- ⦿ Long term needs v short term needs
- ⦿ Property needs
- ⦿ New projects and initiatives
- ⦿ Are they **adequate but not excessive?**

Reserves policy and the trustees' report

- ⦿ **Total funds at end of accounting period**
- ⦿ **Identification of restricted funds**
- ⦿ **Identification and explanation of designated funds**
- ⦿ **Likely timing of expenditure of designated funds**
- ⦿ **Tangible fixed asset funds**
- ⦿ **Statement of free reserves held at end of accounting period**
- ⦿ **Comparison of free reserves held with the reserves policy and an explanation of actions required to bring the level of free reserves into line with that policy**

Other policies

⊙ **Charity Commission expectation (and hence good practice) – a charity should confirm whether it has written policies -**

Specifically:

- Risk management
- Investment
- Safeguarding vulnerable beneficiaries
- Conflicts of interest
- Volunteer management
- Complaints handling
- Paying staff

⊙ **Only required if relevant**

⊙ **Communication is key - keep brief and punchy**

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Conclusion

“Trusteeship” is an onerous responsibility

BUT

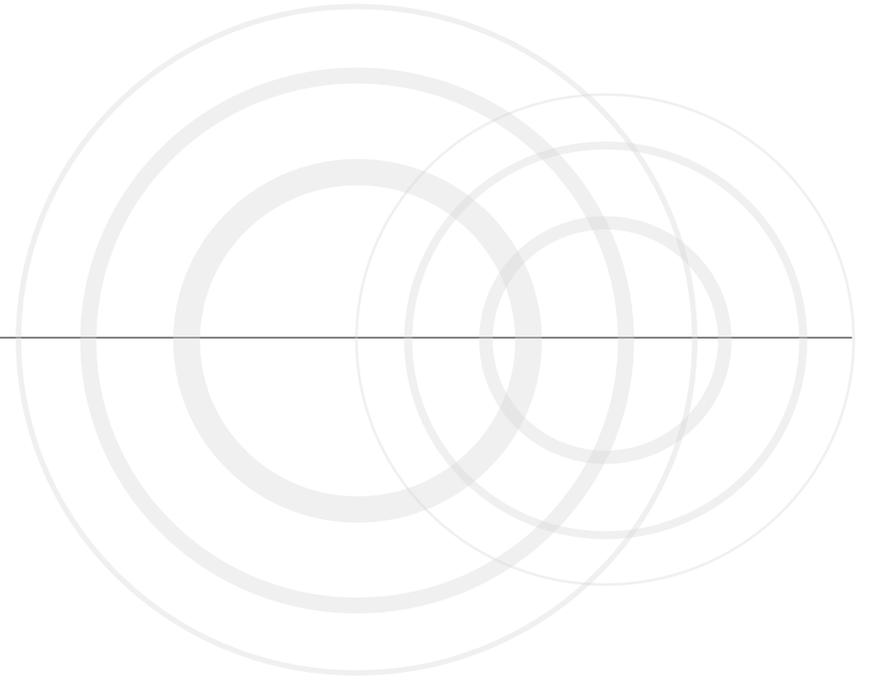
It should be an opportunity to:

- ⦿ Learn new skills
- ⦿ Get involved in new aspects of Church and parish life
- ⦿ Make a difference!

Questions



Thank you



Appendix – Example Risks



Specific risks - governance

⦿ Governance

- The PCC lacks direction, strategy and forward planning
- Leadership body lacks skills or commitment
- Leadership body is dominated by one or two individuals
- Conflicts of interest
- Ineffective organisational structure
- Activities outside objects
- Loss of key staff

Specific risks - operational

⊙ Operational

- Contract risk
- Project or service development
- Security of assets:
 - A dangerous/unsafe or dilapidated building
 - Computer virus or loss/corruption/theft of data and information
- Employment issues
- Health, safety and environmental

Specific risks - financial

⦿ Financial

- Budgetary control and financial reporting
- Reserves policy
- Diminishing income e.g. offeratory
- Workplace reform
- Fraud or error
- Investment policies

Specific risks – environmental or external

⊙ Environmental

- Public perception
- Adverse publicity
- Secularisation and not “changing with the times”
- Government policy

Specific risks - compliance

⦿ Compliance

- Health & Safety
- Employment issues
- Food hygiene and environmental
- Failure to seek professional advice
- Taxation