UK200charities&education group news

issue 1 2015

charities & education

knilljames
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auditing rules relaxed

The audit income threshold for charities in England and Wales doubled from £500,000 to £1 million on 31st March 2015, following positive reactions to a Cabinet Office consultation proposing the change across the sector. This means a charity that receives an income equal to or less than the new threshold amount during financial years ending on or after the 31st March 2015 is exempt from auditing requirements.

The consultation followed recommendations made by Lord Hodgson in his 2012 report about the Charities Act 2006.

Auditing requirements are imposed on charities under the Charities Act 2011. Under the Act, a charity with an income that exceeds the audit income threshold, or income and assets that together exceed the asset threshold, must have its accounts audited by a statutory auditor. The asset threshold for charities is an annual income of more than £250,000 and assets worth more than £3.26 million.

The Cabinet Office consultation also proposed changes to the asset threshold. These were greeted less favourably than the change to the income threshold, and have not been adopted.

There has also been a proposal that professional bodies' members should be able to carry out examinations of charities operating below the income threshold, as a cheaper and simpler alternative to auditing. Responses to this were positive, and the Cabinet Office has added the Institute of Financial Accountants and the Certified Public Accountants Association to the list of approved bodies.

Auditing and similar legal requirements are intended to prevent charities closing due to financial difficulties. For example, an Operational Case Report (OCR) published by the Charity Commission in March 2015 concluded that the collapse of BeatBullying in November 2014 was caused by a lack of funding due to grants falling through. According to the Commission, 'BeatBullying was not in compliance with its own reserves policy and had no reserves' and 'was therefore quickly affected by the cancellation of anticipated funding'.

The Charity Commission's OCR also acknowledged that charities with no reserves and heavily reliant on a single source of income are 'always going to face a serious risk to their viability'. Trustees are advised to look at Commission guidance and 'regularly review' business plans and policies to ensure they are complying with their statutory duties. In a press release that covers BeatBullying's collapse, the Commission signposts trustees to its 15 point checklist for trustee meetings. The list, which was originally published in December 2012, includes questions such as 'What effect is the current economic climate having on our charity and its activities?'; 'Are we financially strong enough to sustain our operations?; and 'Do we have any reserves?'

Read more about the auditing changes at:
http://bit.ly/1GG5Ooe

The checklist is available via:
http://bit.ly/1CBJc6H

Charities & Education

tool to test fraud resilience

A free tool to help charities assess their susceptibility to fraud has been created.

The Self-Assessment Fraud Resilience (SAFR) Tool features 29 questions designed to assess the fraud vulnerability of larger firms, including charities. The questions cover topics such as how well firms understand fraud, what pre-emptive and reactive measures they are taking to counter fraud, and what strategies they have in place to address fraud cases if they arise.

Once a charity has completed the questions, they instantly receive a resilience score out of 50, as well as an estimate of how much money they are losing through fraud each year. Charities can compare how their resilience score compares with the charity sector as a whole, as well as with other sectors. The Charity Commission will be able to access an overview of results in terms of the sector's strengths and weaknesses, although individual responses will be kept confidential.

The tool has been designed for larger firms, and the Charity Commission has therefore only circulated it to registered charities with an income of over £1 million per year. The Commission is working to develop a similar system for smaller charities. The Commission has also worked alongside The Charity Finance Group to develop 'Charity Fraud – A guide for the trustees and managers of charities', which is available online and gives further information about managing fraud.

Commenting on the new tool, Caron Bradshaw, CEO at the Charity Finance Group, said: "Fraud is constantly evolving, and charities need to review their financial controls and strategies regularly to meet new threats. At a time when resources are tight, charities need to be aware of fraud risks and ensure they are adequately protected."

To read more about the free tool, visit: http://bit.ly/1EoRDV8

free property advice available to Charities

The Charities Commission has reminded charities in England and Wales about free, bespoke advice available from the Ethical Property Foundation (EPF). This follows publication of the latest Charity Property Matters report that revealed one in three charities paid for property advice between 2011 and 2014. The latest report, part of a series of surveys published every other year by the EPF, also reveals that just 11% of charities accessed free professional advice in 2013/14, one in four respondents turned to friends and other contacts, and around one in five sought help from a membership association.

The reminder focuses on the need for advice where Commission approval is required to sell or dispose of land, such as a proposed sale to an individual connected to the charity. Bespoke advice from EPF advisers is available on this and other complex issues. Although permission is not needed for most sales or disposals, some charity trustees may still benefit from help and support from the EPF or a similar organisation. Simply registering online with the EPF provides access to more than 125 pages of regularly updated guidance, checklists and templates, all available free of charge.

According to the 2014 survey, there is 'insufficient awareness' of organisations providing property advice 'pro bono' or at a discounted rate. As well as the EPF, these include the Royal Institute of Chartered Surveyors (RICS), Locality and LawWorks. The survey also indicates the importance of these organisations, with almost half (45%) of respondents viewing property as 'the greatest risk' to long-term survival and a similar number (47%) willing to share space if it would reduce costs.

The Charity Commission's reminder can be viewed at: http://bit.ly/1DjyHas

The 2014 Charity Property Matters report is available at: http://bit.ly/1BITTQT

in brief..

Research suggests schools join academy chains

Schools could benefit from economies of scale and improved standards of teaching by joining academy chains of 30 schools or more, according to a report published by think tank Reform. The research was conducted by Parthenon-EY and the report, 'Education in Chains', reveals that schools could make savings of 5-8% by joining academy chains, leaving more money available to improve the quality of teaching. Academy chains are able to invest more money into 'corporate centres' to improve school governance. Despite high-profile cases of academy chains failing to meet standards, Reform argues that chains can work well if they are managed properly and invest enough of their budget into making improvements. Currently, only 7% of academies are part of an academy chain of more than 30 schools.
http://bit.ly/1I9J8vb

Restrictions on charity lotteries to be lifted

Restrictions that prevent the proceeds of non-commercial lotteries from being donated to charities are set to be lifted, following a consultation by the Department for Culture Media and Sport (DCMS). Under the Gambling Act 2005, incidental non-commercial lotteries, such as raffles held by societies, workplaces and residents, are prevented from raising money for charities, despite the fact they are exempt from licensing requirements. Non-commercial lotteries are also currently required to announce lottery results during the course of an event and workplace and residents' lottery tickets are required to display the name and address of the promoter. Under proposed new rules, these restrictions would also be lifted. The consultation was carried out under the Government's Red Tape Challenge, as part of efforts to boost economic growth by removing restrictive regulations.
http://bit.ly/1HeAV8A

Charities benefitting from increased legacy income

Legacy income for charities rose by almost 10% in 2014, according to statistics published by Legacy Foresight. The statistics were based on charities that are members of the Legacy Monitor Consortium, which represents more than half of the charity legacy market. Legacy income for these charities totalled £1.25 billion in 2014, which is a rise of 9.8% from 2013. Around 87% of this income came from residual value, which is the money left from an inheritance after all bequests, legacies and debts have been settled. The average residual value donation was £58,300 in 2014, which is 9.2% more than in 2013. The average value of cash gifts also rose 6.7% during 2014 to reach £3,700, excluding unusually large gifts. According to Legacy Foresight, increasing legacy income for charities can be linked to increasing house prices. http://bit.ly/1ETMmQl

Charity shops preferred to online marketplaces

Charity shops are more popular with consumers than online marketplaces, according to a survey conducted by consultancy firm nfpSynergy. More than eight in ten consumers surveyed said they would buy books from a charity shop, while around half said they would buy them from an online marketplace. Similarly, almost two thirds of consumers said they would buy adult clothes from a charity shop, while less than half said they would use an online marketplace to buy them. Of the 16 product categories listed in the survey, only food and toiletries were more likely to be bought from an online marketplace than from a charity shop. The survey also reveals that 81% of consumers visited a charity shop in 2014, up from 68% in 2004. http://bit.ly/1IlWsY2

Digital tax registration service launched

New charities can now register to confirm their tax status online, following the introduction of a digital service from HM Revenue & Customs (HMRC). Before registering for the new service, charities must register as an organisation and sign up for a Government Gateway online account. During the registration process, key information must be provided about the charity's management and objectives. Guidance and checks have been built into the service to help charities ensure they submit the correct information and supporting documents to HMRC. Commenting on the new service, Mark Dearnley, HMRC Chief Digital and Information Officer said: *"The charities service minimises the risk of making mistakes so applications are less likely to be returned to the organisation."* Around 15,500 new charities register their details with HMRC each year.
http://bit.ly/1BITYUN

Response to committee recommendations published

In January 2015, the House of Commons Education Committee published a report examining the process for establishing academies and free schools. The committee's report included a number of recommendations and the Department for Education (DfE) has now published its response. The DfE's response indicates that processes are already in place to meet many of the committee's recommendations. The DfE has said it will carry out a consultation about how the performance of academies and free schools should be measured. It will also publish new guidance about what makes a good school sponsor and conduct analysis to determine how well academy schools are performing for children in key stages one and two.
http://bit.ly/1OvRZuU

online annual return launched for charities

An updated online annual return form has been released for charities in England and Wales by the Charity Commission.

The return must be completed by charities with annual incomes of more than £10,000 per year, as well as by all charitable incorporated organisations. It has to be submitted within 10 months of the end of a financial year, and must be used for any returns with a financial year ending in 2015. It can only be completed online, and the Charity Commission has published guidance about how to complete it.

New questions have been included in the updated return, covering topics such as how much income the charity has received from central or local government in terms of grants and service contracts, whether it has a written policy in place for paying staff and whether financial controls have been reviewed in the last year. According to the Commission, the new questions have been introduced to improve transparency, as well as to 'promote good governance' by encouraging charities to consider issues such as financial controls and staff payment.

The Commission also originally proposed including a question about the amount of money spent on campaigning activities, but this was ruled out following a largely negative reaction from charities. However, the Commission has pledged to revisit this as a potential question for the 2016 annual return. The new return also includes the usual questions about charities' finances, activities and trustees.

According to the Commission, public appetite for information about charities' finances is increasing. Commenting on the importance of completing the return, Sarah Atkinson, Director of Policy and Communications said: "Completing the annual return is about meeting both your legal responsibilities and the expectations of the public – there's no excuse."

To read more about the new return, go to: http://bit.ly/1CBLgvj

draft trustee guidance criticised by consultation respondents

A draft version of updated guidance for charity trustees, 'The Essential Trustee' (CC3), has been criticised as 'overly prescriptive' by respondents to a consultation on its future. Responses were submitted by leading umbrella bodies NVCO (National Council for Voluntary Organisations), the Association of Charitable Foundations (ACF) and the Charity Finance Group (CFG), as well as the Law Society. The consultation closed in February 2015 and a final version of the guidance is expected this spring.

The updated guidance retains the distinction between legal requirements (what trustees must do) and minimum good practice standards (what trustees should do). However this goes further than the previous guidance by defining 'should' as meaning 'a minimum good practice requirement which may, if not complied with, constitute a breach of duty.' Although trustees' duties have not changed, it is made clear that the Charity Commission expects them to follow good practice barring 'a good reason not to'.

In their joint consultation response, the CFG, NVCO and the ACF describe the updated guidance as taking 'a heavily prescriptive tone' that will 'inhibit action and innovation'. Concern about the new definition of 'should' is also a common theme of consultation responses. In contrast, the Institute of Chartered Accountants in England and Wales (ICEAW) predicts that the definition will be helpful to trustees, bearing in mind 'that it is important they take their responsibilities seriously and are equipped to understand the risks involved'.

Read more about the consultation response at: http://bit.ly/1Ie1N8L

knilljames
chartered accountants

One Bell Lane
Lewes
East Sussex
BN7 1JU
Tel 01273 480480
Fax 01273 476941
info@knilljames.co.uk
www.knilljames.co.uk

If you would like further information on any of the articles in this newsletter, please contact Susan Foster or David Martin at the above telephone number or email sue@knilljames.co.uk or david@knilljames.co.uk