

Imperial College Union

Year ended 31 July 2017

Audit Findings Report

The Trustees of Imperial College Union
Imperial College Union
25 Gordon Street
London
WC1 0AY

Dear Trustees

Audit for the year ended 31 July 2017

Following the completion of our audit fieldwork on the financial statements of Imperial College Union for the year ended 31 July 2017 we have pleasure in submitting our Audit Findings Report setting out the most significant matters which have come to our attention during our audit and of which we believe you need to be aware when considering the financial statements. The matters included in this report have been discussed with Imperial College Union's management during our audit. Malcolm Martin and Edmond Burke have seen a draft of this report and we have incorporated their comments and/or proposed actions where relevant. Alastair Lyon and Phuong Pollock will be attending your meeting on 25 September and will be pleased to provide any further information or clarification you may require.

We would like to express our appreciation for the assistance provided to us by the finance team and the other staff at the charity during our audit.

Use of this report

This report has been provided to management to consider and ratify on behalf of the Board of Trustees, in line with your governance structure. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

Yours sincerely

Crowe Clark Whitehill LLP

Contents	Page
1. Audit overview	1
2. Significant matters from our audit	3
3. Other matters from our audit	5
4. Systems and controls issues	6
5. Reporting audit adjustments	9
Appendix 1 - Fraud and error	10
Appendix 2 - The Charity Governance Code	13
Appendix 3 - GDPR: What your charity should be doing now to prepare for May 2018	17
Appendix 4 - Eight hallmarks of a risk aware charity	21
Appendix 5 - Risk management and risk appetite	24
Appendix 6 - Managing third party relationship risks	27
Appendix 7 - Cyber security: a strategic risk management issue	29
Appendix 8 - External developments	31
Appendix 9 - Upcoming Non Profits events, courses and briefings	38

1. Audit overview

Audit scope and approach

Our audit work has been undertaken for the purposes of forming our audit opinion on the financial statements of the Imperial College Union prepared by management with the oversight of the trustees and has been carried out in accordance with International Standards on Auditing (UK) ('ISAs').

Our work combined substantive procedures, involving on a test basis direct verification of transactions and balances (including obtaining confirmations from third parties where we considered this to be necessary), with a review of certain of your financial systems and controls where we considered that these were relevant to our audit. No restrictions or limitations were placed on our work.

Communicating significant findings from our audit

We are required by ISAs to communicate with the trustees as "those charged with governance" various matters from our audit including:

- our views about significant qualitative aspects of the charity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures,
- significant difficulties, if any, encountered during the audit,
- any significant matters arising during the audit and written representations we are requesting,
- circumstances that affect the form and content of our auditor's report, if any, and
- any other significant matters arising during the audit that, in our professional judgment, are relevant to the oversight of the financial reporting process.

We have included comments in relation to the above where relevant in the subsequent sections of this report.

We also report to you any significant deficiencies in internal control identified during our audit which, in our professional judgment, are of sufficient

importance to merit your attention. We have reported a number of matters relating to the charity's systems and controls in section 4.

You should note that our evaluation of the systems of control at Imperial College Union was carried out for the purposes of our audit and accordingly it is not intended to be a comprehensive review of systems and processes. It would not necessarily reveal all weaknesses in accounting practice or internal controls which a special investigation might highlight, nor irregularities or errors not material in relation to the financial statements.

Audit completion

We have substantially completed our audit in accordance with our Audit Planning Report which was sent to you and the senior management team in August, subject to the matters set out below.

- Completion of the post-Balance Sheet events review.
- Review of the final financial statements.
- Receipt of the signed letter of representation.

These three items we have identified as outstanding are work we usually carry out just prior to us signing our audit report.

We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise on completion of the outstanding matters. On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements.

Significant audit matters

We have identified the following as being critical to the financial statements.

- Income recognition
- Management override of controls
- Valuation of the USS and SAUL pension scheme deficit liability

We have considered these matters further in section 2 of this report.

Other key audit matters

In Section 3 we have also discussed in detail the observations from our work which would merit comment in this report.

Materiality and identified misstatements

As we explained in our Audit Planning Report, we do not seek to certify that the financial statements are 100% correct; rather we use the concept of “materiality” to plan our sample sizes and also to decide whether any errors or misstatements discovered during the audit (by you or us) require adjustment. The assessment of materiality is a matter of professional judgement but overall a matter is material if its omission or misstatement would reasonably influence the economic decisions of a user of the financial statements.

The audit materiality for the financial statements set as part of our audit planning took account of the level of funds held and also the activity of Imperial College Union and was set at approximately 1% of total incoming resources. We have reviewed this level of materiality based on the draft financial statements for year ended 31 July 2017 and are satisfied that it continues to be appropriate at this level.

We also report to you any unadjusted individual errors other than where we consider the amounts to be trivial, and for this purpose we have determined trivial to be approximately £2,000.

We have listed in section 5 any misstatements we have noted which have not been adjusted by management. The unadjusted errors would result in an increase of £6,066 in the net incoming resources recorded in the Statement of Financial Activities and management have concluded that this is not material. We will be requesting confirmation from the Trustees in our audit representation letter that you do not wish to adjust for these misstatements.

Ethical Standards

We are required by the Revised Ethical Standard 2016 issued by the Financial Reporting Council (‘FRC’) to inform you of all significant facts and matters that may bear upon the integrity, objectivity and independence of our firm.

Crowe Clark Whitehill LLP has procedures in place to ensure that its partners and professional staff comply with both the Revised Ethical Standard 2016 and the Code of Ethics adopted by The Institute of Chartered Accountants in England and Wales.

As explained in our audit planning report, in our professional judgement there are no relationships between Crowe Clark Whitehill LLP and Imperial College Union or other matters that would compromise the integrity, objectivity and independence of our firm or of the audit partner and audit staff. We are not aware of any further developments which should be brought to your attention.

Legal and regulatory requirements

In undertaking our audit work we considered compliance with the following legal and regulatory requirements, where relevant.

- Charities Act 2011
- The Charities (Accounts and Reports) Regulations 2008 (or updated Regulations if enacted before completion of the financial statements)
- Financial Reporting Standard 102 (FRS 102)
- The Charities SORP (FRS102) (effective 1 January 2015)

Financial statements

The trustees of Imperial College Union are responsible for the preparation of the financial statements on a going concern basis (unless this basis is inappropriate). The trustees are also responsible for ensuring that the financial statements give a true and fair view, that the process your management go through to arrive at the necessary estimates or judgements is appropriate, and that any disclosure on going concern is clear, balanced and proportionate.

2. Significant matters from our audit

We reported in our Audit Planning Report a number of areas we identified as having specific audit risk including the potential risk from management override of controls which auditing standards deem to be a significant risk for all audits. We have commented below on the results of our work in these areas as well as on any key additional risks, judgements or other matters in relation to the financial statements of Imperial College Union identified during our audit.

2.1 Income recognition

As noted in our planning report, the key risks in this area have been identified as follows.

- Completeness (has all income due been appropriately recognised in the period?).
- Benefit (has income been recognised in the appropriate period?).
- Fund allocation (have grant restrictions on the use of the income been appropriately captured in the financial statements?).
- Accuracy (where income is owed at year end, is it likely to be received or should it be provided against?).

We performed the following testing as part of our audit work:

- Analytically reviewed income balances year on year to ensure movements were in line with expectation and also our understanding.
- Performed detailed testing on a sample of income streams in the year.
- Agreed grant income balances to external confirmations.
- Reviewed deferred income balances.

No issues have been noted from the testing carried out.

2.2 Management override of controls

Auditing standards require us to consider as a significant audit risk areas of potential or actual management override of controls. In completing our audit we have therefore considered the following matters.

Significant accounting estimates and judgements

We were advised at the planning meeting that no significant estimates were expected to be employed in the production of the year end numbers and we can confirm that this remains the case.

Controls around journal entries and the financial reporting process

We reviewed and carried out sample testing on the charity's controls around the processing of journal adjustments (how journals are initiated, authorised and processed) and the preparation of the annual financial statements. We also considered the risk of potential manipulation by journal entry to mask fraud.

We did not identify any instances of management override of controls or other issues from our sample testing of Imperial College Union's journals.

We understand that at current there is no review process in place for journal entries but management accounts are prepared on a monthly basis which go through a number of levels of review. However, we note that journal processing can be an area of potential risk and it is good practice to include consideration of this within the overall Imperial College Union's risk assessment. We therefore recommend a regular review on a sample basis is made of journals to ensure some accountability is made for journal processing.

Significant transactions outside the normal course of business

We are required to consider the impact on the financial statements if there are any significant transactions occurring outside of the normal course of the charity's business.

No such transactions were notified to us by management, nor did any such transactions come to our attention during the course of our work.

2.3 USS and SAUL pension scheme deficit

We reviewed the assumptions used in the calculation of the FRS 102 pension liabilities in relation to the USS and SAUL pension scheme deficit payments. The discount rate used has been based on Mercer guidance and the basis for the estimate of staff increases has been reviewed and appears appropriate and in line with those used by similar organisations for similar pension schemes.

3. Other matters from our audit

In addition to matters relating to the key areas of accounting and audit focus as reported in Section 2, we have also noted the following matters from our audit work which we should bring to your attention.

3.1 Casual payroll understatement

We noted a variance of £2,514 when agreeing the casual payroll charged from the College (through the College 'intercompany' payroll account) to the payroll workings in the SOFA. Total staff costs in the year amount to £2,837,393 of which casual payroll in the year accounted for £394,240 of this, therefore a variance of £2,514 is considered insignificant. This has been discussed with management and the variance cannot be identified, however, we understand that there are often timing differences in relation to payroll being charged from the college which is the likely reason for this occurring.

The variance is highly immaterial and has therefore not been adjusted for.

3.2 Review of financial statements in line with the Charity SORP

Information sheet 1 was published in April 2017 and seeks to clarify the application of the SORP or particular recommendations contained within the SORP. We have reviewed the guidance in this information sheet as well as previous guidance first published with regard to the introduction of FRS 102 and with your agreement, have made a number of changes to the Report and Financial Statements to reflect this guidance.

These changes include additional wording in the Trustees' Report in particular with reference to future plans and also the introduction of a number of disclosures to support the financial statements.

3.3 Non-charity trading income

The Union are aware and have considered the introduction of a trading subsidiary in order to recognise non-charitable trading income. This is an ongoing review process to ensure they Union are satisfied that their non-charitable income does not exceed threshold for Corporation tax purposes.

This is particularly important to note given this type of income is continuing to grow in the Union and a focus is being put on growing it further in future years.

3.4 Reconciliation of college balance

The balance due from the College could not be agreed directly with the College records due to some items being included correctly in the Union's ledger but omitted from the college and vice versa. The amount understated from the Unions ledger relates to £8,580 for accounts receivable. This amount is not on the Unions ledger but is in the College ledger. This is due to insufficient information provided to the College to be able to accurately accrue the income.

As this amount is not considered material, this has not been adjusted for in the accounts.

The total remaining unreconciled difference is £15,646 and therefore assurance gained that the balance included in the accounts are materially correct. Agreement of balances with the College remains a work in progress and will be looked at again during next year's audit.

4. Systems and controls issues

We have set out below certain potential improvements to the charity's processes and controls which we noted during our audit work and which we believe merit being reported to you.

Our evaluation of the systems of control at Imperial College Union was carried out for the purposes of our audit and accordingly it is not intended to be a comprehensive review of your business processes. It would not necessarily reveal all weaknesses in accounting practice or internal controls which a special investigation might highlight, nor irregularities or errors not material in relation to the financial statements.

In order to provide you with a clearer picture of the significance of issues raised, we have graded the issues raised by significance/priority before any corrective actions are taken:

High	These findings are significant and require urgent action.
Medium	These findings are of a less urgent nature, but still require reasonably prompt action.
Low	These findings merit attention within an agreed timescale.

Audit finding and recommendation	Priority	Management response
<p>1. Credit balances on the sales ledger</p> <p>From our review of the sales ledger we noted credit balances totalling £10,096 at the year end. Upon further review we found that the largest balance of £3,600 relates to monies received that the Union was not expecting.</p> <p>The balance is not material and so has not been adjusted for but we recommend reviewing the sales ledger on a regular basis for items such as this to ensure monies that the Union may not be entitled to are returned or the balances are reallocated to creditors at the year end.</p>		

Audit finding and recommendation	Priority	Management response
<p>2. Debit balances on the purchase ledger</p> <p>From our review of the purchase ledger we noted debit balances totalling £51,758 at the year end. Larger debit balances have been reviewed, please see a summary of our findings below:</p> <ul style="list-style-type: none"> • Upon further discussion with management we found that £3,375 relates to an event which has actually been cancelled as discussed in more detail below. • £18,449 relates to deposits paid for events that are taking place in the next financial year. • £13,516 relates to payments made on proforma invoices for events that took place in July 2017. An automatic report is run to accrue for goods receipted purchase orders, we have agreed these balances noted to this report and therefore the expense has been recognised in the correct period. The entry in both trade creditors and accruals means that trade creditors are understated and accruals overstated however there is no net effect on the overall liabilities at the year end. <p>We would usually see debit balances reclassified, the amounts noted are not material and so no adjustment has been made. However, we recommend reviewing debit balances on the purchase ledger a regular basis to ensure balances are correctly recognised in debtors or creditors where applicable. An unadjusted figure has been noted in section 5 being the £51,758 debit balance less the £13,516 noted above which should have been netted against accruals.</p>		

Audit finding and recommendation	Priority	Management response
<p>3. Proforma invoicing</p> <p>When reviewing the aged creditors listing we noted a debit balance of £3,375 relating to an event which was held last year. This was discussed with managed and we understand the event was to be paid in three instalments. A PO had been raised for the first instalment, but an invoice for the full amount was presented for payment, and upon confirmation that the invoice was correct, the invoice was paid as a pro forma and the PO was cancelled. Per management, the PO ought not to have been cancelled but a second PO should have been created for the difference.</p> <p>Management have noted that the circumstances are unusual and a number of control issues are highlighted, which they plan to address and rectify. Currently it is possible to cancel a PO connected to a pro forma without going through Finance. In light of the above, management have discussed with the Systems team a way to prevent this in future, and a job has been created to find a fix.</p> <p>It is important to note that the Union was acting as agent for this specific transaction and as such the receipt of funds as agent is not recognised as income nor is its distribution recognised as the agent's expenditure in line with the SORP thus meaning there is no impact on the SoFA. We understand that the Union is in process of billing the affiliated association in order to recover this cost.</p>		
<p>4. Supplier statement review</p> <p>When reviewing the Greene King supplier statement there was a variance of £2,534 to the year end aged creditor balance with the statement being higher. This variance is made up of two items:</p> <ol style="list-style-type: none"> 1. Direct debit collection of £1,669 posted to the wrong supplier account 2. A missing invoice for £865 from 15/16 for which the payment was made but invoice not received, this has been posted this month as it has now been received. <p>Management have acknowledged that this does point to the need for greater speed and rigour in investigating and clearing old timing and reconciliation differences. We will provide an update on this matter at our next audit. Both amounts are highly trivial and no adjustments have been made in the accounts in respect of this.</p>		

5. Reporting audit adjustments

International Standards on Auditing (UK) require that we report to you all misstatements which we identified as a result of the audit process but which were not adjusted by management, unless those matters are clearly trivial in size or nature.

Our audit approach is based on consideration of audit materiality as explained in section 1 of this report. We determine materiality for the purposes of the charity's statutory reporting by our judgement as to what adjustments would influence the readers' perceptions of the financial statements. We do not therefore seek to review all immaterial amounts.

For the purpose of reporting non-trivial items identified as a result of our audit work which have not been adjusted in the financial statements we set out in our Audit Planning Report that we would report unadjusted misstatements greater than £2,000 unless they are qualitatively material at a lower amount.

We have reported in section 2 above significant matters from our audit of which there is no potential financial impact. In addition, we identified certain other items which have not been adjusted in the draft financial statements. We have summarised below the potential overall impact of these items on the financial statements.

	Net income increase /(decrease)	Assets increase /(decrease)	Liabilities increase /(decrease)	Opening reserves
	£	£	£	£
Net results per financial statements presented to the trustees	43,237			
Understatement of casual payroll year end balance	(2,514)		2,514	
Credit balances on sales ledger		10,096	10,096	
Debit balances on purchase ledger		38,242	38,242	
Unreconciled variance on balance with Imperial College	8,580		(8,580)	
Total potential adjustments	6,066	48,338	42,272	-
Potential revised results per the financial statements	49,303			

Appendix 1 - Fraud and error

In our Audit Planning Report, we explained that the responsibility for safeguarding the assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with the trustees of Imperial College Union.

In accordance with International Auditing Standards, we planned our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements or accounting records (including any material misstatements resulting from fraud, error or non-compliance with law or regulations).

However, no internal control structure, no matter how effective, can eliminate the possibility that errors or irregularities may occur and remain undetected. In addition, because we use selective testing in our audit, we cannot guarantee that errors or irregularities, if present, will be detected. Accordingly our audit should not be relied upon to disclose all such misstatements or frauds, errors or instances of non-compliance as may exist.

As part of our audit procedures we made enquiries of management to obtain their assessment of the risk that fraud may cause a significant account balance to contain a material misstatement. Usually fraud in the charity sector is not carried out by falsifying the financial statements. Falsifying statutory financial statements usually provides little financial benefit, as compared to say a plc where showing a higher profit could lead to artificial share prices or unearned bonuses. However falsifying financial statements can be used to permit a fraud or to avoid detection. As a generality charities represented by its management and its trustees do not actively try to falsify financial statements as there are not the same incentives to do so. In the charity world fraud is usually carried out through misappropriation or theft.

We have reviewed and discussed the accounting and internal controls systems management has put in place to address these risks and to prevent and detect error. However, we emphasise that the trustees and management should ensure that these matters are considered and reviewed on a regular basis.

We have included the following statements in the letter of representation which we require from the trustees when the financial statements are approved.

- The trustees acknowledge their responsibility for the design and implementation of internal control to prevent and detect fraud and errors.
- The trustees have assessed that there is no significant risk that the financial statements are materially misstated as a result of fraud.
- The trustees are not aware of any fraud or suspected fraud affecting the charity involving management, those charged with governance or employees who have a significant role in internal control or who could have a material effect on the financial statements. .
- The trustees are not aware of any allegations by employees, former employees, regulators or others of fraud, or suspected fraud, affecting the charity's financial statements.

We draw your attention to bullet point 2 above which presupposes that an assessment has been made. We have not been made aware of any actual or potential frauds which could affect the 2017 financial statements, or the period since the 2017 year end.

We emphasise that this section is provided to explain our approach to fraud and error, but the responsibility to make and consider your own assessment rests with yourselves.

Considering risks of fraud

The following provides further information on the three kinds of fraud that charities such as Imperial College Union should consider.

a) Frauds of extraction

This is where funds or assets in possession of the charity are misappropriated. Such frauds can involve own staff, intermediaries or partner organisations since they require assets that are already in the possession of the entity being extracted fraudulently. This could be by false invoices, overcharging or making unauthorised grant payments.

Essentially such frauds are carried out due to weaknesses in physical controls over assets and system weaknesses in the purchases, creditors and payments cycle. The cycle can be evaluated by considering questions such as who authorises incurring a liability and making a payment. On what evidence? Who records liabilities and payments? Who pays them and who checks them?

The close monitoring of management accounts, ledger entries and strict budgetary controls are also generally seen as an effective way of detecting and deterring frauds in this area.

Staff should be made aware of the increasing use of mandate fraud. This is where when the fraudster gets the organisation to change a direct debit, standing order or bank transfer mandate by purporting to be a supplier or organisation to which the charity make regular payments.

Insufficient due diligence around requests to amend supplier or payroll details has led to payments to unauthorised individuals so the importance of sufficient checks in these areas is of increasing importance.

Some charities have also been victims of what is being termed CEO fraud, although it does not involve the CEO. In this case cyber criminals spoof company email accounts and impersonate executives to try and fool an employee in accounting or HR into executing unauthorised wire transfers or sending out confidential information.

This type of phishing scam is a sophisticated scam targeting businesses working with foreign suppliers and/or businesses that regularly perform wire transfer payments. The scam is carried out by compromising legitimate business e-mail accounts through social engineering or computer intrusion techniques to conduct unauthorised transfers of funds. Action Fraud, the UK's national fraud and cyber-crime reporting centre's website explains:

“CEO fraud will typically start with an email being sent from a fraudster to a member of staff in a company's finance department. The member of staff will be told by the fraudster who is purporting to be a company director or CEO that they need to quickly transfer money to a certain bank account for a specific reason. The member of staff will do as their boss has instructed, only to find that they have sent money to a fraudster's bank account.

The fraudster will normally redistribute this money into other mule accounts and then close down the bank account to make it untraceable. Out of the £32 million reported to be lost by businesses to CEO fraud only £1 million has been able to be recovered by the victims. This is due to businesses taking too long to discover that they have been the victim of fraud and the lost money already being moved by fraudsters into mule accounts. Most businesses reported initially being contacted via emails with gmail.com and yahoo.com suffixes. (Note that: in some cases the email comes from a hacked email account).

How can businesses protect themselves?

- *Ensure all staff, not just finance teams, and know about this fraud.*
- *Have a system in place which allows staff to properly verify contact from their CEO or senior members of staff; for example having two points of contact so that the staff can check that the instruction which they have received from their CEO is legitimate.*
- *Always review financial transactions to check for inconsistencies/errors, such as a misspelt company name.*
- *Consider what information is publicly available about the business and whether it needs to be public.*
- *Ensure computer systems are secure and that antivirus software is up to date.”*

All employees should exercise real scepticism and not make any payments which are not properly supported and outside the normal payment mechanisms.

b) Backhanders and inducements

There is also an inherent risk that individuals who are able to authorise expenditure or influence the selection of suppliers can receive inducements to select one supplier over the other. This risk can be mitigated by robust supplier selection and tendering procedures.

There is also the risk that once a donation of money or aid has been authorised and released in the UK, this could be diverted, probably into the underground economy, as a result of inducements paid in the destination country. Charities should be aware of the requirements and extent of the UK Bribery Act 2010, as this extends their liability to actions beyond the shores of the UK and to cover the actions of their intermediaries and agents. Organisations are required to put

in place proportionate measures to prevent backhanders and inducements from being paid, either by their workers, agents or intermediaries or to their workers, agents or intermediaries.

c) Frauds of diversion

This is where income or other assets due to Imperial College Union are diverted before they are entered into the accounting records or control data. Essentially, it is easy to check what is there but very difficult to establish that it is all there. Therefore ensuring the completeness of income provided to a charity becomes difficult.

Appendix 2 - The Charity Governance Code

A new Governance Code for charities was published in July 2017.

Although not a legal or regulatory requirement, the Code explains that it is a practical tool to help charities and their trustees develop high standards of governance. The Code sets the principles and recommended practice for good governance and is deliberately aspirational: some elements of the Code will be a stretch for many charities to achieve. It is important that trustees discuss the Code's principles and recommended practice and make well-considered decisions about how these should be applied in their charity.

In its statement about the code the Charity Commission has said

“The bottom line is, good governance is no longer an optional extra. It’s essential to charities’ effectiveness and probably their survival too. Charities need to be able to demonstrate that they take it seriously, allowing it to change the way they operate.”

The Charity Governance Code represents a standard of good governance practice to which all charities should aspire. We encourage all charities to read, follow and apply it proportionately to their circumstances. And if you sign up to the code, go public about it on your website or your annual report. Be prepared to stand up and be counted, and see the difference that makes.”

Apply or explain

The Code is designed as a tool to support continuous improvement. Charity boards that are using this Code effectively will regularly revisit and reflect on the Code's principles. All trustees are encouraged to meet the principles and outcomes of the Code by either applying the recommended practice or explaining what they have done instead or why they have not applied it. The Code does not use the phrase 'comply or explain', which is used by some other governance Codes, because meeting all the recommended practice in this Code is not a regulatory requirement.

Charities that adopt the Code are encouraged to publish a brief statement in their annual report explaining their use of the Code. It is anticipated that this statement will be a short narrative rather than a lengthy 'audit' of policies and procedures.

Foundation for good governance

Compliance with the law is an integral part of good governance. The Code does not attempt to set out all the legal requirements that apply to charities and charity trustees, but it is based on a foundation of trustees' basic legal and regulatory responsibilities. This assumes that all trustees:

- are committed to their charity's cause and have joined its board because they want to help the charity deliver its purposes most effectively for public benefit,
- recognise that meeting their charity's stated public benefit is an ongoing requirement,
- understand their roles and legal responsibilities, and, in particular, have read and understand the Charity Commission's guidance 'The Essential Trustee' (CC3) and their charity's governing document, and
- are committed to good governance and want to contribute to their charity's continued improvement.

Culture and behaviour

We have carried out a number of governance reviews for charities and our experience is that there is much more than codes and standards that need to be considered. The Code recognises that appropriate behaviour and culture are as important as structures and processes and that it is important to get the right balance between appropriate oversight and day-to-day management.

Board members should delegate where possible, but in accepting their positions board members take on duties and responsibilities that they cannot abdicate. Their responsibility is a collective one, which is more readily satisfied if there is as much requisite experience presented around the table as is consistent with the effective working of the group. If the board believes that the requisite skills do not exist, it should re-evaluate its composition. However, it is important to recognise that existing skills within both the board and executive management team should be complementary and not necessarily duplicated.

Larger organisations are usually in the position where the board has had the foresight to appoint experienced and expert management. This sometimes

causes a dilemma, and the charity board members' position is in stark contrast to that of the non-executive director of a company in the private sector who shares their responsibilities with their executive colleagues.

It is the reaction to the starkness of their position that often results in charity board members becoming over-involved in operational management to the detriment of their critical perspective. In some ways, the greater the competence and professionalism of management, the greater the challenge and the more difficult the role of the board.

The charity sector recognises the need for boards to empower senior management and for management to empower staff. Empowerment is important, but empowerment must be balanced with accountability. Too often there is unwarranted expectation that things are being done as they should be done and that good practice is being followed.

Getting the balance right

True empowerment requires an enabling environment, and this means that the organisation must ensure that those it is trying to empower have the aptitude, core competencies, values and skill base to properly use tools, methodologies and policies that must support both accountability and devolved decision-making. True empowerment is possible only when suitably experienced individuals take decisions within their competence and adhere to an agreed framework that does not require constant reference to or follow-up from others. In practice, this is effective only when individuals both follow and rely on clear procedures and policies that set the parameters and framework for decision-making and operations.

True and effective empowerment needs three components: responsibility, authority and accountability. As activities or tasks are delegated to teams or individuals, all three components need to be considered. The correct balance will be achieved only when individuals or teams have a clear understanding of responsibilities, the authority necessary to fulfil these responsibilities and the accountability for the consequences of what they have done or failed to do. This accountability is required not just from management but also from boards.

Getting the balance right is the challenge. While the board holds its brief to remain engaged, board members should take care to avoid over-involvement in the executive function. The board's role is wide and encompasses many different issues that change and evolve over time. No board member should take for granted that established procedures, services and protocols are

appropriate for the needs of today and tomorrow. It is by holding this frame that boards can best fulfil their obligations and make the greatest contribution. It is in this stance that their greatest value lies as they create and hold a space that is their true support to management.

The Seven Principles

There are seven Code principles that build on the assumption that charities are already meeting the Foundation for good governance.

Each principle in the Code has a brief description, a rationale (the reasons why it is important), key outcomes (what you would expect to see if the principle were adopted) and recommended practice (what a charity might do to implement the principle). The seven principles are:

1. Organisational purpose

The board is clear about the charity's aims and ensures that these are being delivered effectively and sustainably.

Rationale

Charities exist to fulfil their charitable purposes. Trustees have a responsibility to understand the environment in which the charity is operating and to lead the charity in fulfilling its purposes as effectively as possible with the resources available. To do otherwise would be failing beneficiaries, funders and supporters. The board's core role is a focus on strategy, performance and assurance.

Key outcomes

- The board has a shared understanding of and commitment to the charity's purposes and can articulate these clearly.
- The board can demonstrate that the charity is effective in achieving its charitable purposes and agreed outcomes.

2. Leadership

Every charity is headed by an effective board that provides strategic leadership in line with the charity's aims and values.

Rationale

Strong and effective leadership helps the charity adopt an appropriate strategy for effectively delivering its aims. It also sets the tone for the charity, including its vision, values and reputation.

Key outcomes

- The board, as a whole, and trustees individually, accept collective responsibility for ensuring that the charity has a clear and relevant set of aims and an appropriate strategy for achieving them.
- The board agrees the charity's vision, values and reputation and leads by example, requiring anyone representing the charity reflects its values positively.
- The board makes sure that the charity's values are reflected in all of its work, and that the ethos and culture of the organisation underpin the delivery of all activities.

3. Integrity

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.

Rationale

Trustees, and the board members collectively, have ultimate responsibility for the charity's funds and assets, including its reputation. Trustees should maintain the respect of beneficiaries, other stakeholders and the public by behaving with integrity, even where difficult or unpopular decisions are required. Not doing this risks bringing the charity and its work into disrepute.

Key outcomes

- The board acts in the best interests of the charity and its beneficiaries. The board is not unduly influenced by those who may have special interests and places the interests of the charity before any personal interest. This applies whether trustees are elected, nominated, or appointed. Collectively, the board is independent in its decision making.

- The board safeguards and promotes the charity's reputation and, by extension, promotes public confidence in the wider sector.
- Members of the board and those working in or representing the organisation are seen to be acting with integrity, and in line with the values of the charity.

4. Decision-making, risk and control

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.

Rationale

The board is ultimately responsible for the decisions and actions of the charity but it cannot and should not do everything. The board may be required by statute or the charity's governing document to make certain decisions but, beyond this, it needs to decide which other matters it will make decisions about and which it can and will delegate.

Trustees delegate authority but not ultimate responsibility, so the board needs to implement suitable financial and related controls and reporting arrangements to make sure it oversees these delegated matters. Trustees must also identify and assess risks and opportunities for the organisation and decide how best to deal with them, including assessing whether they are manageable or worth taking.

Key outcomes

- The board is clear that its main focus is on strategy, performance and assurance, rather than operational matters, and reflects this in what it delegates.
- The board has a sound decision-making and monitoring framework which helps the organisation deliver its charitable purposes. It is aware of the range of financial and non-financial risks it needs to monitor and manage.
- The board promotes a culture of sound management of resources but also understands that being over-cautious and risk averse can itself be a risk and hinder innovation.

- Where aspects of the board's role are delegated to committees, staff, volunteers or contractors, the board keeps responsibility and oversight.

5. Board effectiveness

The board works as an effective team, using the appropriate balance of skills, experience, backgrounds and knowledge to make informed decisions.

Rationale

The board has a key impact on whether a charity thrives. The tone the board sets through its leadership, behaviour, culture and overall performance is critical to the charity's success. It is important to have a rigorous approach to trustee recruitment, performance and development, and to the board's conduct. In an effective team, board members feel it is safe to suggest, question and challenge ideas and address, rather than avoid, difficult topics.

Key outcomes

- The board's culture, behaviours and processes help it to be effective; this includes accepting and resolving challenges or different views.
- All trustees have appropriate skills and knowledge of the charity and can give enough time to be effective in their role.
- The chair enables the board to work as an effective team by developing strong working relationships between members of the board and creates a culture where differences are aired and resolved.
- The board takes decisions collectively and confidently. Once decisions are made the board unites behind them and accepts them as binding.

6. Diversity

The board's approach to diversity supports its effectiveness, leadership and decision making.

Rationale

Diversity, in the widest sense, is essential for boards to stay informed and responsive and to navigate the fast-paced and complex changes facing the voluntary sector. Boards whose trustees have different backgrounds and experience are more likely to encourage debate and to make better decisions.

The term 'diversity' includes the nine protected characteristics of the Equality Act 2010 as well as different backgrounds, life experiences, career paths and diversity of thought. Boards should try to recruit people who think in different ways, as well as those who have different backgrounds.

Key outcomes

- The board is more effective if it includes a variety of perspectives, experiences and skills.
- The board ensures that the charity follows principles of equality and diversity, going beyond the legal minimum where appropriate.

7. Openness and accountability

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.

Rationale

The public's trust that a charity is delivering public benefit is fundamental to its reputation and success, and by extension, the success of the wider sector. Making accountability real, through genuine and open two-way communication that celebrates successes and demonstrates willingness to learn from mistakes, helps to build this trust and confidence and earn legitimacy.

Key outcomes

- The organisation's work and impact are appreciated by all its stakeholders.
- The board ensures that the charity's performance and interaction with its stakeholders are guided by the values, ethics and culture put in place by the board. Trustees make sure that the charity collaborates with stakeholders to promote ethical conduct.
- The charity takes seriously its responsibility for building public trust and confidence in its work.
- The charity is seen to have legitimacy in representing its beneficiaries and stakeholders.

Appendix 3 - GDPR: What your charity should be doing now to prepare for May 2018

On 25 May 2018 the General Data Protection Regulation (GDPR) will replace the Data Protection Act 1998 (DPA). This will change the way you collect, store and process personal data.

The GDPR has been adopted by the European Commission and will have implications for all organisations which control and process personal data. The impact of this change is extensive and wide-ranging, in particular for organisations within the charity sector. Although the landscape of post-Brexit GDPR is uncertain, the UK government has already confirmed the GDPR will apply in the UK.

Is this relevant for my charity?

The GDPR applies to all 'data controllers' and 'data processors'; terms that are defined broadly in line with the DPA. The GDPR, like the DPA, will apply to all 'personal data' - if your charity previously fell within the scope of the DPA, then almost certainly the new GDPR will apply to you.

Personal data under the GDPR is defined as:

"any information relating to an identified or identifiable natural person ("data subject"); an identifiable person is one who can be identified, directly or indirectly, in particular by reference to an identifier such as a name, an identification number, location data, online identifier or to one or more factors specific to the physical, physiological, genetic, mental, economic, cultural or social identity of that person".

Most charitable organisations hold vast amounts of personal data (from HR details for staff to donor databases). The definition of 'sensitive personal data', a term familiar from the DPA, remains broadly unchanged. However, the GDPR extends the former DPA definition to include 'location data', 'online identifiers' and 'genetic data'. This will bring new data sets within the scope of the regulation, for example IP addresses.

Much has been made of the widened territorial scope of the GDPR. The new legislation applies to organisations who process personal data about EU subjects, irrespective of where the actual data processing takes place.

Key principles of the GDPR

The GDPR sets out responsibilities under a set of principles:

- Fairness
- Lawfulness and transparency
- Purpose limitation
- Data minimisation
- Data quality
- Security
- Integrity and confidentiality
- Accountability

One of the most significant changes from the DPA is the principle of accountability which requires your organisation to show how it complies with the principles.

Article 5 of the GDPR requires that personal data shall be:

- processed lawfully, fairly and in a transparent manner in relation to individuals;
- collected for specified, explicit and legitimate purposes and not further processed in a manner that is incompatible with those purposes; further processing for archiving purposes in the public interest, scientific or historical research purposes or statistical purposes shall not be considered to be incompatible with the initial purposes;
- adequate, relevant and limited to what is necessary in relation to the purposes for which they are processed,
- accurate and, where necessary, kept up to date; every reasonable step must be taken to ensure that personal data that are inaccurate, having regard to the purposes for which they are processed, are erased or rectified without delay;
- kept in a form which permits identification of data subjects for no longer than is necessary for the purposes for which the personal data are processed; personal data may be stored for longer periods insofar as

the personal data will be processed solely for archiving purposes in the public interest, scientific or historical research purposes or statistical purposes subject to implementation of the appropriate technical and organisational measures required by the GDPR in order to safeguard the rights and freedoms of individuals;

- processed in a manner that ensures appropriate security of the personal data, including protection against unauthorised or unlawful processing and against accidental loss, destruction or damage, using appropriate technical or organisational measures.

Article 5(2) of the GDPR requires that:

- the controller shall be responsible for, and able to demonstrate, compliance with the principles.

Most notable changes from the DPA

The key changes in the GDPR are:

- stricter criteria for consent;
- additional details specifically in reference to children's consent;
- the accountability concept;
- "the right to be forgotten";
- other enhanced rights;
- cross border transfers.

Consent

The conditions within the GDPR include the following.

- The data subject must have the right to withdraw consent at any time, and it must be as easy to withdraw as it is to give.
- Consent mechanisms will need to be genuine and granular, 'catch-all' consents will likely be invalid.
- The individuals must take affirmative action to provide their consent, such as signing a form or ticking a box.
- Consent must be freely given, informed and specific.

Transparency

Organisations must give data subjects extensive detail about how their data will be processed. Data Controllers are required to present this information in a concise, transparent, intelligible and easily accessible way. The information that must be provided includes details about the rights of the data subject, for example the right to withdraw consent, and must be given at the point of collecting the data.

Children and consent

Children below the age of 13 can never give consent to the processing of their personal data in relation to online services. Some national flexibility is given for children between the ages of 13 and 15. Those aged 16 or older may give consent for the processing of their personal data themselves.

Regulated data

The GDPR highlights a number of online identifiers, such as cookie IDs and IP addresses, which may be personal.

Data Processors

Under the GDPR, data processors have direct obligations. These include maintaining a written record of processing, and notifying the controller of any personal data breaches without undue delay.

Accountability

One of the key changes is the onerous accountability obligations placed on data controllers to demonstrate compliance. This includes keeping documentation of decision making to evidence active compliance with the GDPR.

In certain circumstances organisations must name a Data Protection Officer (DPO), the DPO is required to have sufficient expertise to carry out this role.

Enhanced rights for individuals

Reinforcement of the rights of the individual is a clear aim of the new legislation. The GDPR enhances rights of individuals in a number of ways including:

- access rights to the data being processed about them (in certain circumstances);
- correction rights where data is wrong;

- the right to restrict certain processing;
- the right to object to personal data being processed for direct marketing;
- the right to data portability;
- the right to be forgotten / the right to erasure.

Requests from data subjects to exercise these rights must be responded to within one month. This is a shorter time limit than the 40 days allowed under the DPA.

Reporting requirements

GDPR requires mandatory notification of any breach to the relevant Data Protection Authority: the Information Commissioner in the UK. Notification needs to be made without undue delay, and where possible, within 72 hours of the breach.

Cross border data transfers

The international transfer rules remain substantially unchanged. The legitimate basis for transferring personal data needs to be considered, as does the protection of that data once overseas.

Why is this a priority for my organisation?

Most charitable organisations hold vast amounts of personal data, such as names and addresses of donors, supporters, and beneficiaries. Many also hold sensitive personal data such as racial or ethnicity details, information regarding religion, physical or mental health conditions, or criminal record details. The charity sector has significant legal and moral obligations to protect this data from harm.

Compliance with the GDPR is a legal requirement from 25 May 2018. Non-compliance could lead to substantial fines. The GDPR sets two tiers of fines, with no provision or exception for organisations which are 'for the public benefit'.

The top tier fine is up to the higher of 4% of annual worldwide turnover and EUR20 million. Other specified breaches would incur a fine of up to the higher of 2% of annual worldwide turnover and EUR10million. The level of the fine will reflect the nature, gravity and duration of the breach. In addition to a fine, non-compliance risks substantial reputational damage.

Individuals demand protection of their personal information. Charitable organisations need to consider the potential damage to reputation of any breach. To minimise reputational risk, many organisations extend data protection controls well beyond the scope of legal requirements.

Prepare now for GDPR in May 2018

The principles of the new GDPR legislation are familiar from the DPA, but the obligations in some areas are more extensive. Charities need to ensure their internal processes and IT systems will be able to cope with the new regulation from May 2018.

Steps your charity should take.

- Assign responsibility and budget for data protection compliance within your charity.
- Consider assigning responsibilities to a 'Data Protection Officer' – even where there is no legal requirement to do so in the GDPR.
- Run a compliance gap audit, to address possible areas of non-compliance.
- Audit the legal basis on which you currently collect and process personal data:
 - * review what data you currently collect;
 - * check what consent you obtain: is this sufficient to meet the new GDPR requirements?;
 - * check privacy notices are clearly worded and easily accessible.
- Update risk registers, and use risk management tools to tailor your response to the results of the compliance gap audit.
- Consider updating job descriptions and job specifications for data protection responsibilities.
- Put in place policies and procedures to ensure data breaches are identified and dealt with promptly, including an agreed chain of communication to relevant authorities.
- Develop template responses, to ensure communications are GDPR compliant.

- Establish a framework for accountability, to prove your organisation meets the required standards for data protection under the GDPR.
- Ensure your staff are adequately trained and understand the new obligations.
- Audit the systems and controls surrounding any high risk data processing, to ensure appropriate steps are taken to address any specific weaknesses or concerns.
- Ensure data protection and privacy is embedded into all decision making, and forms part of all strategic discussions.
- Consider the 'right to erasure' – will your systems be able to comply with requests of this nature?
- Consider whether the consent rules for children are likely to affect your organisation.
- Consider your relationships with your data processors (outsourced payroll providers for example) and ensure lines of responsibility for data protection are clearly defined in service agreements.
- Review, map and audit any international data transfers and consider:
 - * are they necessary;
 - * do you have a legitimate basis for transferring the personal data;
 - * how is the data protected once overseas?
- Consider developing data subject access portals to pass administration of the data directly to the individuals
- Review marketing suppression lists and other marketing procedures to ensure they are GDPR compliant
- Discuss and consider reputational risk above and beyond the requirements of GDPR.

Appendix 4 - Eight hallmarks of a risk aware charity

We have in previous reports discussed a number of key aspects on risk management. These have included:

- linking strategy to risk management;
- emphasising the impact of a risk over its likelihood;
- considering risk appetite;
- evaluating the risk that comes with working with third parties; and
- key issues to manage cyber security risks.

Our experience of working with charities that are at the forefront in all these areas has led us to identify certain hallmarks of a risk aware organisation.

Hallmark #1: A risk aware charity has a clear strategy and effective governance

The starting point for any organisation is to have a clear strategy and effective implementation plans. All too often we see charities which have shaped their strategy and therefore thought about “what they should be doing” but have not considered “how they should be doing it”. It is important to consider the strategic options and develop the long term aims and controls establishing an operational plan that underpins the strategic framework. A robust set of strategic options should be formulated, each followed through to its logical end state, including the implications for the allocation of people, funds, and other resources. The risk is that the organisation finds itself with inadequate resources to deliver its plans and flounders in the implementing of its strategy.

Consider:

- Do we have a clear strategy?
- Have we considered our strategic options?
- Do we have an operational plan? Have we considered both “what should we be doing” as well as “how should we do it”?
- Have we considered the resource implications of implementing our plan?

- Have we communicated the strategy and the implementation plan to key stakeholders within the charity?

Effective governance is at the heart of any well run, well-functioning organisation. Effective governance is about the right “tone at the top” and trustees who are willing and able to challenge assumptions, ask the right questions and ensure that the facts are properly considered. It is also about appropriate delegation with clearly stipulated authority levels and effective reporting back protocols. Some of the recent challenges on areas such as fundraising indicate that sometimes key decisions have been delegated to individuals with insufficient monitoring and understanding of what was happening.

Consider:

- Do trustees delegate to management within a clearly defined and appropriate scope of authority?
- Do we have effective reporting mechanisms?
- Do trustees receive timely information in a format that is understandable?
- Do trustees and senior management challenge robustly and ask the right questions?

Hallmark #2: A risk aware charity links strategy to risk management

A risk aware charity is one that links strategy and risk management. Ultimately good risk management is about ensuring we have identified those risks and opportunities that can impact on our strategic aims. It is also about being able to manage both risks and opportunities.

Consider:

- Do we understand the key risks that might prevent the charity from achieving its goals?
- Have we carried out both a top down and bottom up risk mapping process which considers both strategic and operational risks? Is our risk register reviewed regularly by the Trustees and Senior

Management to ensure lessons learned and changing circumstances are properly reflected?

Hallmark #3: A risk aware charity horizon scans and anticipates beyond the current strategic plan

A risk aware charity thinks beyond the current strategic period to the next one. It considers what is on the horizon that can stop it from achieving its mission. As organisations mature they can face a decline in innovation. It is important that both the “business as usual” as well as emerging opportunities are considered concurrently. For this to happen organisations must gather information beyond the usual timescales and extend beyond the usual sources. They must consult others with different perspectives.

Consider:

- Have we considered what we need to do now to be innovative for the future?
- Have we considered what we need to do now to set the seeds for the next strategic period?
- Do we actively horizon scan and disseminate that value added information to support decision-making?
- Do we balance investment in the current with the need to invest for the future (in terms of delivering charitable outcomes and impact, income generation and infrastructure)?

Hallmark #4: A risk aware charity understands the need to take risks and innovate

All too often risk registers are about downside risks but successful organisations need to innovate to grow and deliver and to do that they need to take risks. All too often organisations and individuals focus all their attention on what could go wrong but this may mean that they will miss opportunities which will drive growth and create value for their stakeholders.

Consider:

- Have we identified what risks the charity needs to take to be successful?

- Do we have a process for managing opportunities? Do we seek to exploit/share or enhance the benefit of the opportunity for our organisations?

Hallmark #5: In a risk aware charity risk appetite/tolerance is articulated and understood

The consideration of risk and how risk is managed is particularly important for charities because their governance structure means that those who are ultimately responsible for the charity, its trustees, are not normally involved in the day to day running of its operations. The setting of risk appetite:

- Depends on understanding the importance of different objectives and actions and the risks that have to be taken to achieve those objectives.
- Needs to be considered for individual programmes and projects, and also across operating areas, geographies, activities, functions.
- Needs to consider the overall portfolio of risks to ensure that an organisation's risks and response are appropriate, balanced and sustainable.

Understanding of the organisational risk appetite is important as “over responding” in control measures or management of risk can lead to extra costs and / or inhibited activity. Furthermore in order for management to innovate and consider upside risk they need to have a clear understanding of Trustees risk appetite.

Consider:

- Is there a clear understanding of Trustees' risk appetite? Has this been communicated broadly throughout the organisation?
- Is the risk response on the risk register appropriate in the context of the risk appetite?
- Have we considered the cost and benefit of managing our risks?

Hallmark #6: A risk aware charity embeds risk management at all levels with the right tone set at the top

One of the hardest parts of establishing an effective risk management process is embedding it across an organisation. To achieve it though it is essential that the right tone is set at the top by not only the Trustees but also by the Senior

Management Team and that there is engagement at all levels – both top down and bottom up.

There is no one answer to embedding risk across an organisation. It is more about doing a number of things and keeping these up. For example the risk register should not be something that is dusted off annually to tick the box but one that is regularly considered by the charity, discussed, updated and reviewed. There should also be regular training and development programmes for staff and for Trustees. It should be included as part of the Trustee induction. There should be clear links to strategy and performance management as well as a discussion of key learning points.

Consider:

- Do management and Trustees set the right tone at the top?
- Do we regularly monitor, review, update and discuss our risk register?
- Do we have regular training for staff and Trustees?
- Is there discussion of key learning points which feedback into our risk and strategy process?

Hallmark #7: A risk aware charity understands the need for assurance and performance management and builds these into the process

Most charities try to foster a culture of empowerment. True and effective empowerment needs responsibility, authority and accountability. This increases the need for review and monitoring controls.

The assurance framework should give assurance to the Trustees, management, funders, regulators and other stakeholders that the responsibilities of governance and stewardship have been met. This means that the assurance framework should focus on operational process, systems effectiveness and the alignment of activity with strategy.

At key element is effective performance management which is a key part of strategic risk management. There should be alignment of the charity's mission with goals with performance metrics.

Consider:

- Do we have an assurance framework which links our organisational strategy and the risks and uncertainties that can impact on the strategic aims?
- Is our assurance framework risk focused and take account of the charity's strategy, governance and risk management processes in determining the approach and the areas to cover?
- Do we measure and monitor KPIs related to strategic risks?
- Do we include financial and non-financial KPIs?

Hallmark #8: A risk aware charity communicates effectively

Accountability and transparency are of vital importance to charities. The final and perhaps one of the most critical hallmarks of a risk aware charity is effective communication. This requires an effective communication strategy and communication plan. UK charities need to pay due regard to the serious incident reporting requirements as set out by the Charity Commission and ensure that there are proper processes in place that ensure incidents are captured on a timely basis and reported up to management, Trustees and if appropriate to the regulator.

SORP2015 requires the trustees to disclose the principal risks and uncertainties facing the charity and an explanation of how the charity manages these including a brief explanation about those factors that support the conclusion that the charity is a going concern.

Consider:

- Do we have a strong risk statement in our annual report?
- Have we identified who are stakeholders are and considered their communication needs?
- Do we have a communication strategy and a communication plan? Is this shared within the charity and well understood?

Appendix 5 - Risk management and risk appetite

The Charity SORP requires that “A statement should be provided in the Trustees’ Report confirming that the major risks to which the charity is exposed, as identified by the trustees, have been reviewed and systems or procedures have been established to manage those risks”.

We believe that the following areas of risk management may merit consideration.

Rewarded and unrewarded risk

New thinking focuses on the concepts of rewarded and unrewarded risks. Some risks are all downside and no upside. For example, if Imperial College Union fails to comply with laws and regulations there can be significant consequences, but there is no extra credit for being even more compliant. Similarly, it is important to avoid disruptions to critical operations and systems, but doing so does not earn a premium from stakeholders, it simply meets their expectations. These are the unrewarded risks. They cannot be ignored, but the primary incentive for tackling them is value protection.

Other risks are all about upside, for example, introducing new innovations in service delivery or expanding into new areas of income generation. The primary impetus for taking these rewarded risks is value creation. Although taking these risks might have a downside, the potential upside is greater. In our experience the charities that succeed are not the ones that avoid risk but are those that look for opportunities and fully understand their risk appetite and take risks after carefully considering them.

Value protection risks are important but the issue is that individuals may focus the bulk of their attention on the threats and end up missing out on the opportunities – many charities are recognising the focus should shift to value creation risks. Risk aversion and focusing only on downside risk and can lead to underinvestment in the kinds of opportunities that drive growth and create value for stakeholders. Risk intelligent organisations, on the other hand, understand the distinction between rewarded and unrewarded risks and respond accordingly.

Understanding risk vulnerability

A typical risk map uses the traditional risk management methodology that focused on considering both impact and likelihood or probability of a risk and

giving them equal importance. In this thinking the impact score is multiplied by the score for likelihood and the product of the scores used to rank those risks that the trustees regard as most serious. Therefore with a scoring system of say 1 - 5 a risk that has been assessed as very high in both likelihood and impact will have a score of 25 (5x5). A risk that has a very high impact but a very low likelihood will have a risk score of 5 (5x1) as will a risk with very high likelihood and very low impact. This is risky as it makes people allocate risk management resources in a questionable manner.

There is widespread acceptance that a risk which has very high impact and very low likelihood should have greater importance than one with very high likelihood and insignificant impact. The thinking has moved on and there is greater recognition that probability has less value for risks that occur outside the norm. This means that approaches will have to be incorporated to deal with a new financial climate and new challenges. Risk management needs consideration of risk vulnerability especially when events are rare or unprecedented; where the rules are unknown or rapidly changing; or where causes are driven by external factors beyond Imperial College Union’s control. In such instances, the concept of vulnerability and risk interaction should assume prominence in both the risk assessment and risk management processes.

If the charity is vulnerable to a risk that is both relevant and has extremely high impact, it should be addressed, regardless of ‘remote’ likelihood. However, ‘addressed,’ in this context, is not necessarily the same as ‘mitigated’. A balance needs to be attained and vulnerability should be weighed alongside probability. Resource constraints need to be considered and risks and rewards will need to be evaluated.

Furthermore, the trustees will need to establish their risk appetite and the risk tolerance that they are ready to accept. However it is important to recognise that sometimes improbable events do occur with devastating effect, while other times probable events fail to materialise. To ensure that risk management focuses on both value protection and value creations Imperial College Union must understand the possible, and its impact, and not just the probable.

Taking a portfolio approach to risk

Consideration of linked risks and the “domino” effect should be made. Most major value losses involve the interaction of more than one risk. Many catastrophic losses are the result of a series of small events rather than a single large event. Unfortunately, organisations that focus only on big risks may find themselves ill-prepared to face the interaction of separate adverse events in the absence of an integrated and coordinated response to linked risks. Similarly, the exposure to a portfolio of risks needs to be considered.

An isolated concentration on value at risk can sometimes result in not spotting ‘risk contagion’ – in other words where one low impact risk leads to another and another so that the cumulative impact is catastrophic. If the charity only looks at the big risks it can end up ill-prepared to face the interaction of separate adverse events.

Linking risk management to strategy

To be truly effective, risk management should be related to Imperial College Union’s organisational strategy. The aim is to focus on the risks that could impact on organisational strategic aims.

This process can help embed risk management because it links risk management to strategy and critical success factors. This requires a focus on the uncertainties that might prevent Imperial College Union from achieving its stated goals and objectives. Linking risk management to strategy in this way puts risk management into context and within the understanding of all areas and staff. In effect, asking individuals to consider what could prevent the achieving of the goals and these are often articulated as “we wills” in an organisation’s strategic plan. This approach also lends itself to looking at missed opportunities and not just downside risk.

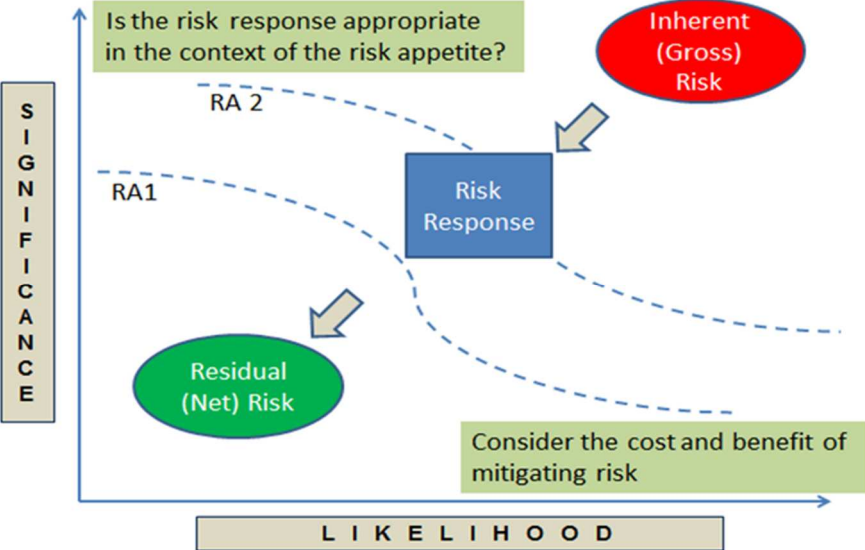
In 2011 the Institute of Risk Management published a Guidance Paper on Risk Appetite and Risk Tolerance. This defines risk appetite as “the amount of risk that an organisation is willing to seek or accept in the pursuit of its long term objectives”. Discussion and understanding of Risk Appetite is particularly relevant in the governance structures that are prevalent in the voluntary and public sector context. This is because there are usually two tiers with a non-executive Board supported by an executive management team. In this context it is vitally important for the management team to understand the initiatives and risks that the Board are prepared to accept and which risks need to reduce and by how much.

Understanding risk appetite allows appropriate risk taking and presents opportunities to deliver better services, make more reliable decisions, improve efficiency and support innovation. Importantly, in these times of scarce resources it allows an organisation to ensure the risk response is appropriate. In many cases public sector and voluntary organisations over engineer the risk response leading to either too many scarce resources being allocated to manage down the risk or leading to a limitation of the scope and benefits of an initiative or activity.

This thinking is depicted graphically below – consider ‘a risk’ with a high inherent or gross level of significance and likelihood. As would be expected the planned response is designed to reduce this leaving a “lower” net or residual risk. If the Risk Appetite was positioned at line RA1 then the residual risk would need to be below this. However, if the Board had a higher risk appetite position for this risk – say one positioned at RA2 then it would not be necessary to invoke the whole array of risk response and a higher level of residual or net risk would be considered acceptable.

Thinking about risk appetite in this context will identify if more has to be done or if less can be done to reduce the gross risk.

In effect the cost and benefit of mitigating the risk is considered in light of the Risk Appetite and less resource can be deployed to reducing the risk and / or a higher net or residual risk is considered acceptable. Therefore in the diagram below if the Risk Appetite was at RA2 rather than RA1 it would allow greater flexibility to the organisation as it would be ready to accept a higher net risk.



We therefore recommend that risk appetite or a target level of risk is introduced in Imperial College Union's Risk Register to identify if the net risk is at the right level. This would allow consideration of whether more or less needs to be done and whether more or less risk can be taken.

Appendix 6 - Managing third party relationship risks

With increased regulatory scrutiny, continuing cost pressures and active stakeholders, large charities today must have a clear understanding of the risks that are inherent in external business relationships. By recognising and proactively addressing these third-party issues, organisations can reduce exposure to risk and achieve stronger relationships with service providers, suppliers, and delivery partners.

Trends

Many organisations are thinking more broadly about the risks they face. Inevitably, there is growing realisation that many of the most significant risks are driven by relationships with other entities. These relationships include:

- Service providers – such as donation collection and processing, investment management, IT and computer services, payroll processing, pension services, construction services, property, advertising, leasing, utilities and legal services;
- Supply-side partners – such as shared service organisations, external fundraisers, grant makers, commercial participators, statutory agencies and other funders;
- Demand-side partners – such as governmental organisations, other statutory bodies, funders, beneficiaries and other charities; and
- Other relationships – such as members, donors, supporter groups, alliances, consortiums, joint ventures and employees.

Risks have always been inherent in third-party relationships, but some particularly dramatic examples of risk exposure have occurred in recent years. For example:

- Reliance on third parties. The March 2011 earthquake and tsunami in Japan demonstrated a significant vulnerability to sudden parts shortages and supply chain disruptions across a broad range of industries.
- Protection of systems and data. High-profile data breaches have shown how even businesses with robust data security systems can be at risk due to weaknesses in the security of third-party organisations entrusted with sensitive information.
- Reputation linked to others' actions. Unexpected revelations about distant suppliers' labour and environmental practices, which often catch

retailers and distributors by surprise, demonstrate how quickly stakeholder confidence can be shaken, even in businesses with solid reputations for competence and integrity.

- Continuity of operations. Allegations of accounting fraud in one major outsourced provider of IT services ultimately had global repercussions, triggering the near collapse of the business.
- Financial dependency. Highly volatile commodity prices have led to rapidly changing cost structures for vendors in virtually all industries.

Third-party risks are increasingly important to large charities, especially given the trends in outsourcing. For Imperial College Union this is particularly important in the management of its investments because of the reliance on 3rd party managers and advisers.

Solutions

The broad array of risk-related challenges today's businesses face makes clear that an uncoordinated or case-by-case approach to third-party risk management is no longer adequate. At a practical level, a successful third-party risk management programme typically is implemented in three steps, as follows.

1. Establish ownership and buy-in. Planning for change is critical to successful third party risk management in organisations where the ownership of such risk is dispersed among multiple stakeholders and owners. This planning requires cross-functional coordination, executive leadership and oversight, and clear goals and objectives. The mission of most organisations often includes a focus on strengthening the overall relationship with the third party.

Success factors:

- Clearly establish risk ownership.
- Obtain cross-functional input from various stakeholders.

- Develop a third-party risk management road map.

2. Evaluate risks. Understanding the risk profile of the entire organisation helps focus efforts on the areas of highest risk, which allows the assignment of adequate resources to address specific clauses in an agreement or specific types of relationships or categories of risk. Developing a comprehensive risk landscape is often a helpful first step in evaluating the various risks in a relationship. This step helps avoid taking a one-size-fits-all approach and instead drives focus on the areas of risk and reward to the organization.

Success factors:

- Identify the high risks inherent in the third-party relationships.
- Quantify identified risks.
- Establish a plan for moving forward.

3. Audit, monitor, and assess. The risk landscape spurs initiatives to audit, inspect, benchmark performance and costs, verify, and gain assurance or attestation. A successful third-party risk management program has an appropriate level of:

- Risk measurement and monitoring;
- Performance measurement and monitoring;
- Incident tracking; and
- Evaluation of the value received from the relationship.

These activities are important for determining when or whether to renegotiate the terms of the agreement. The companies that are most successful in this auditing and monitoring function are those that work to enhance the data they have about their relationships so that they can predict areas of risk more accurately and automate relationship monitoring more effectively.

Success factors:

- Customize the assessment to the relationship.
- Use automation to streamline the process.

- Analyse trends of incidents across relationships.

Board members, as part of their corporate governance responsibilities, should be asking management about third-party risks. The following suggested questions are a useful means of starting this process.

8. Do we have a full list of our relationships and agreements?
9. Have we assessed the risks to Imperial College Union of the relationships we have?
10. Who owns the assessment of these risks?
11. What are the key relationship risks and what are the processes we have in place to manage them?
12. How do we know that the third-parties with whom we have relationships are complying with the agreements we have in place?
13. What are our policies in relation to auditing agreements for compliance?
14. How do we know that the third-parties with whom we have relationships are complying with laws and regulations?
15. Which of our key relationships and agreements have not been reviewed by legal counsel in the last three to five years?
16. How do we re-assess the risks of a relationship prior to renewal? What types of risks do we consider at renewal?
17. Do our standard agreements address the key risks?
18. How do we know the reports we receive from key third-parties are reliable?
19. Have we tested our business continuity plans with our key third-party relationships?
20. How dependent are our third-parties on subcontractors?
21. What risks are associated with these organisations?

Appendix 7 - Cyber security: a strategic risk management issue

Today's organisations collect process and retain more information than they have ever done. For not for profits, this information can be internal so can be about their own operations or employees or their 'business' or collected from external sources such as from beneficiaries, donors, or even customers, if they run any trading activities.

The impact of this digital retention of information means that organisations have become more dependent on information systems and more vulnerable to attack by sophisticated cybercriminals or even their own employees.

The results of numerous surveys and research show that organisations are still not adequately protected against cyber-attacks. Nearly two-thirds of companies across sectors and regions responding to a joint research carried out by McKinsey and the World Economic Forum described the risk of cyber-attack as a "significant issue that could have major strategic implications."

The impact of the controls put in place to mitigate against this risk is thought to be having negative business impacts by slowing the use of technology such as the use of public-cloud services and even reducing productivity by limiting the employee's ability to effectively share information.

Making organisations cyber-resilient is therefore now regarded as a key strategic risk management issue which should be monitored by Chief Executives and Boards. The following are some of the factors that organisations should consider.

- Prioritise which information asset should be protected – so for example for a charity with large donor base this could be the donor information.
- Consider differentiating protection based on the prioritisation – so for example, more rigorous passwords or encryptions.
- Integrate security into technology projects from the outset.
- Use defences such as firewalls to uncover attacks – consider penetration testing.
- Test the organisations response to breaches – so make sure there is a strategy in place known by the communication team for managing the messages when a breach occurs.

- Raise your employees and users understanding and awareness of the importance of protecting the not for profit's information. Often organisations are made vulnerable to attacks because employees and volunteers do not observe the basic information security measures – for example by emailing sensitive files to a large group or using memory sticks with bugs or clicking on unsecure links. Help the organisation understand the risks.

Cybersecurity should become a board agenda item and be integrated into functions such as HR or donor management or fundraising.

During 2016 the government established the National Cyber Security Centre (NCSC) with this being officially opened by Her Majesty The Queen on 14 February 2017. The NCSC was set up to help protect our critical services from cyber attacks, manage major incidents and improve the underlying security of the UK Internet through technological improvement and advice to citizens and organisations.

The NCSC has a stated aim of providing the best possible cyber security advice and information to everyone in the UK, including the public and members of organisations of all kinds. One of their initial publications "10 Steps to Cyber Security" outlines the basic cyber security procedures to protect your organisation from cyber attacks, while their "Cyber Essentials" allows organisations to advertise that they meet a government endorsed standard of cyber hygiene.

The 10 Steps to Cyber Security emphasises that protecting your information is a board-level responsibility which has benefits at strategic, financial and operational levels. It includes a set of questions to assist Senior Management and Trustees with their existing strategic-level risk discussions and specifically how to ensure you have the right safeguards and cultures in place.

We believe that these questions, with a slight change in focus, are equally applicable to charities.

Key questions for Senior Management and Boards

Protection of key information assets is critical

1. How confident are we that our charity's most important information is being properly managed and is safe from cyber threats?
2. Are we clear that the Trustees and Senior Management are likely to be key targets?
3. Do we have a full and accurate picture of:
 - the impact on our charity's reputation or existence if sensitive internal, supporter or beneficiary information held by the charity were to be lost or stolen?
 - the impact on the charity's activities if its online activities were disrupted for a short or sustained period?

Exploring who might compromise our information and why is critical.

4. Do we receive regular intelligence from the Chief Information Officer / Head of Security on who may be targeting our charity, their methods and their motivations?
5. Do we encourage our technical staff to enter into information sharing exchanges with other charities in our sector and/or across the economy in order to benchmark, learn from others and help identify emerging threats?

Pro-active management of the cyber risk at Board level is critical

6. The cyber security risk impacts reputation, culture, staff, information, process control, brand, technology, pricing and finance. Are we confident that:
 - We have identified our key information assets and thoroughly assessed their vulnerability to attack?
 - Responsibility for the cyber risk has been allocated appropriately? Is it on the risk register?
 - We have a written information security policy in place, which is championed by us and supported through regular staff training? Are we confident the entire workforce understands and follows it?

Appendix 8 - External developments

We have summarised below some of the developments and changes in the charity sector over the recent period which we believe may be of interest and relevant to you. Please note that this information is provided as a summary only and that you should seek further advice if you believe that you have any specific related issues or intend to take or not take action based on any of the comments below.

We issue a regular technical briefing for charities by email. If you would like to receive this please email your details to nonprofits@crowecw.co.uk. Alternatively, these briefings are available in the resource library on [our website](#).

Charities (Protection and Social Investment) Act 2016

The Charities (Protection and Social Investment) Act 2016 received Royal Assent on 16 March 2016 with the first phase coming into force on 31 July 2016.

The purpose of the Act is to:

- protect charities from individuals who are unfit to be charity trustees,
- strengthen the powers of the Charity Commission,
- enable charities to more easily undertake social investment (investing their funds in a way that furthers their charitable purpose as well as providing a financial return), and
- reinforce the trustees' responsibility and accountability for fund-raising.

As part of the last purpose, the Act has introduced new reporting requirements for accounting periods commencing on or after 1 November 2016 which require charities which are required to have their accounts audited (income over £1m) to include a statement about the following in their trustees' annual report.

- The charity's approach to fundraising activity, and in particular whether a professional fundraiser or commercial participator was used.
- Details of any voluntary fundraising schemes or standards which the charity or anyone fundraising on its behalf has agreed to.
- Any failure to comply with a scheme or standard cited.
- Whether and how the charity monitored fundraising activities carried out on its behalf.

- How many complaints the charity or anyone acting on its behalf has received about fundraising for the charity.
- What the charity has done to protect vulnerable people and others from unreasonable intrusion on a person's privacy, unreasonably persistent approaches or undue pressure to give, in the course of or in connection with fundraising for the charity.

Although this required statement is not mandatory for the current reporting period, the trustees will need to ensure that the relevant information is available to enable them to comply with this requirement in the future.

Linked to this the Commission has issued new guidance on fundraising for trustees in CC20 as explained below.

The Act also gives charities a new specific and simple power to make social investments along with clear duties when doing so. This power has now come into force and to reflect this change the Charity Commission has updated its publication CC14 Charities and investment matters: a guide for trustees and also issued an interim guidance "Social Investment by charities - the new power introduced by the Charities (Protection and Social Investment) Act 2016". This guidance is available on the GOV.UK website:

<https://www.gov.uk/government/publications/charities-and-investment-matters-a-guide-for-trustees-cc14>

The Act can be seen on the GOV.UK website :

<http://www.legislation.gov.uk/ukpga/2016/4/contents/enacted>

Legal Entity Identifier (LEI) codes for charities with investments

Under new regulations which come into force from 3 January 2018, charities with investments which are traded on their behalf by investment managers may be required to obtain a Legal Entity Identifier code (LEI). The LEI initiative is designed to create a global reference data system of 20-character reference codes that uniquely identifies every legal entity or structure, in any jurisdiction, that is party to a financial transaction.

The term "legal entity" includes, but is not limited to, unique parties that are legally or financially responsible for the performance of financial transactions or have the legal right in their jurisdiction to enter independently into legal contracts, regardless of whether they are incorporated or constituted in some other way (e.g. trust, partnership, contractual) and may therefore include both incorporated and unincorporated charities.

Local Operating Units (LOUs) have been established to implement this initiative and LEI codes in the UK are being issued and managed by the London Stock Exchange (LSE).

If any charities holding managed investments have not yet been contacted by their investment advisors about obtaining an LEI code, we suggest that they should discuss this with their relevant contacts to determine whether they will need a code and, if so, to agree who will apply for this.

For charities that need to obtain an LEI code, further details on how to obtain this can be found on the LSE website <https://www.lseg.com/LEI> and from the LSE quick guide to requesting a code pdf document <http://www2.londonstockexchange.com/requesting-LEI-quick-guide>.

Charity Commission – New fundraising guidance in CC20

Linked in with the new reporting requirements on fundraising for trustees and also the recent research on public trust in charities, the Commission has published new guidance for charity trustees about fundraising from the public, CC20. The guidance sets out 6 key principles to help trustees comply with their legal duties when overseeing their charity's fundraising and ensure that they meet their responsibilities. These principles are:

- planning effectively;
- supervising your fundraisers;

- protecting your charity's reputation, money and other assets;
- identifying and ensuring compliance with the laws and regulations that apply specifically to your charity's fundraising;
- identifying and following any recognised standards that apply to your charity's fundraising; and
- being open and accountable.

The guidance also provides a useful checklist for trustees to document the steps taken to ensure compliance with these principles which should be completed and regularly reviewed to demonstrate that the board is aware of their responsibilities and discharging them as required. The disclosure requirements are also discussed.

The guidance is available on the GOV.UK website:

<https://www.gov.uk/government/publications/charities-and-fundraising-cc20>

Charity Commission – Updated financial guidance in CC25

On 16 March 2017 the Commission issued an updated version of a key part of their financial guidance to trustees - CC25 Charity finances: trustee essential.

Although the Commission confirmed that trustees' legal duties regarding financial management haven't changed, the Commission is making a conscious push to ensure trustees are best placed to protect their charity's assets and resources. As part of this, it is urging trustees to read Charity finances: trustee essentials (CC25) which has been refreshed and made more accessible and readable. They also noted that it is vital that trustees are familiar with the charity's governing document, understand the finances, ensure control and procedures are in place and work, and ask the right - and sometimes difficult - questions.

Robust financial management is vital to ensure that charities are able to meet the needs of their beneficiaries and also to increase public trust and confidence in the charitable sector.

CC25 is available from the GOV.UK website

<https://www.gov.uk/government/publications/managing-charity-assets-and-resources-cc25>.

Charity Commission – 15 questions trustees should ask

In addition to updating CC25 as above, the Commission at the same time have made some changes to their 15 questions checklist to improve the clarity in this document.

The 15 questions aim to help trustees whenever you review the way your charity operates, especially in changing or uncertain economic climates. In particular, it can help structure discussions about what your charity does and how it does it, make sure your charity is financially secure, even in tougher economic times, develop plans and timetables for action and demonstrate you are responding appropriately to change. It also provides links to more detailed Commission guidance where relevant.

The 15 questions can be obtained from the GOV.UK website <https://www.gov.uk/government/publications/charity-trustee-meetings-15-questions-you-should-ask>.

Consultation on reporting serious incidents in charities

The Commission is currently analysing feedback on proposed changes to its reporting serious incidents guidance.

Charities have had to report serious incidents to the Commission since 2007. The most common types of incidents reported include fraud, theft and confirmed safeguarding issues. However, the Commission is concerned that their casework continues to find serious incidents that should have been reported but were not.

The key changes in the proposed guidance include the following.

- Making it clearer what to report, how and when – encouraging reporting at the time the incident occurs, or as soon as possible afterwards.
- An updated section to help with multiple reporting for larger charities, or those that report incidents on a regular basis, due to the risks arising from the nature of their work.
- Removing the need to report some types of incident, where these are risks rather than serious incidents, and where the relevant information about the risk is now requested in the annual return.
- Adding some new types of incidents – which charities are experiencing on a regular basis and/or struggling to manage properly.

More details of the proposed updated guidance can be seen on the GOV.UK website <https://www.gov.uk/government/consultations/reporting-serious-incidents-in-charities-consultation>.

Gender Pay Gap Reporting

The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, which came into force on 6 April 2017, require employers with at least 250 employees to publish annual information to show whether there is a difference in the average pay of their male and female employees.

There are six basic calculations, but you will need to gather your information first and make sure you understand the calculation process before publishing your initial results. For example, if you are close to having 250 employees there are some specific rules you need to consider including that each part time worker equals one whole employee.

The required calculations are:

1. Your mean gender pay gap
2. Your median gender pay gap
3. Your mean bonus gender pay gap
4. Your median bonus gender pay gap
5. Your proportion of males and females receiving a bonus payment
6. Your proportion of males and females in each quartile band

The pay information must be based on a snapshot of data at 5 April every year, beginning with 5 April 2017. The bonus information must be based on the preceding 12 month period, beginning with the 12 months to 5 April 2017.

Charities with more than 250 employees will be required to publish the results of their first gender pay gap analysis on the charity's website by 4 April 2018 (in a publicly accessible manner). The trustees also need to provide a written statement confirming that the calculations are accurate and the results must remain on the website for at least three years.

Although commentary on the gender pay gap results is not required, providing a narrative will help people to understand the trustees' view of why a gender pay gap is present and what your charity intends to do to close it. Alternatively,

a commentary might help highlight demonstrate your charity's strong performance relative to its competitors.

Clearly there is only a short amount of time to ensure that you have the adequate data available. It is therefore important to consider what auditing of payroll and bonus arrangements you may need to carry out to ensure you are prepared.

The regulations are available on the Gov.UK website <http://www.legislation.gov.uk/ukxi/2017/172/contents/made> .

Duty to report on payment practices and performance

Any charity which fall within the large company criteria on their last two balance sheet dates will be required to prepare and publish information half-yearly about their payment practices and performance in relation to qualifying contracts for each reporting period in the financial year. Publication is carried out through an online service provided by the government.

The legislation came into effect on 6th April 2017 and will apply to qualifying entities in their financial years beginning on or after 6th April 2017. So for a charity with a 31 December reporting date the first reporting period will start on 1 January 2018. In a financial year there are normally two reporting periods, the first being the six calendar months starting on the first day of the business' financial year. The information must be published within 30 days of the end of the reporting period.

The required details include narrative descriptions on the standard payment terms and processes for resolving disputes as well as statistics on the charity's actual payment performance. It will therefore be important that charities falling within these new reporting requirements have ensured they have plans in place to enable them to extract the necessary information to report.

The government have produced a helpful guide to the reporting on payment practices and performance which can be downloaded from the Department for Business, Energy & Industrial Strategy website <https://www.gov.uk/government/organisations/department-for-business-energy-and-industrial-strategy> .

The Apprenticeship Levy

The Apprenticeship Levy, which came into effect in April 2017, is a levy on UK employers to fund new apprenticeships. In England, control of apprenticeship

funding will be put in the hands of employers through the Digital Apprenticeship Service.

The rate for the levy has been set at 0.5% of an employer's pay bill and will be collected via PAYE. However, employers will receive an allowance of £15,000, the effect of which will be that the levy will only be payable on pay bills in excess of £3,000,000.

The Department for Education has now issued guidance on how the levy will work. It also explains the principles that apprenticeship funding will operate on from 1 May 2017, and is provided for all employers operating in the UK whether or not they pay the apprenticeship levy.

When preparing budgets and forecasts for future periods, employers affected by the levy will need to ensure that they have:

- estimated the amount of the levy;
- estimated any savings available from their current training budget;
- considered any savings from the employer's NIC apprenticeship exemption (under 25's); and
- assessed the number of trainees required to transfer into apprenticeships to cover the costs.

The levy will apply to the "total pay bill" subject to Class 1 NIC so should exclude many benefits in kind however it will include other remuneration in total employee earnings" such as bonuses and share awards which are subject to PAYE/NIC withholdings.

The legislation includes a connected persons rule, similar to the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

The guidance on the Apprenticeship Levy is available on the Gov.UK website <https://www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work/apprenticeship-levy-how-it-will-work> .

The Modern Slavery Act

The Modern Slavery Act 2015 came into force in March 2015. The Act tackles slavery in the UK and consolidates previous offences relating to trafficking and slavery. Part 6 of the legislation 'Transparency in supply chains etc.' requires that commercial organisations produce a slavery and human trafficking statement for each financial year of the organisation. Commercial organisations are defined as those supplying goods or services and having turnover of £36m and over.

Where a charity meets the definition of a commercial organisation under the Act, it is required to make such a statement. The statement must include 'the steps the organisation has taken during the financial year to ensure that slavery and human trafficking is not taking place in any of its supply chains, and in any part of its own business'. The Government publication 'Transparency in Supply Chains etc. – A practical guide' explains that "*this does not mean that the organisation in question must guarantee that the entire supply chain is slavery free. Instead, it means an organisation must set out the steps it has taken in relation to any part of the supply chain (that is, it should capture all the actions it has taken).*"

The government's guidance document can be found at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/471996/Transparency_in_Supply_Chains_etc_A_practical_guide_final.pdf

Charity Commission - What can we do to build public trust in charities?

Following the Charity Commission' Public Trust & Confidence research which showed a significant drop in trust in charities, they have published four blogs commenting on what can be done to build trust.

[Public Trust 1: How can we rebuild public trust in charities?](#)

[Public Trust 2: How do you choose which charity to support?](#)

[Public Trust 3: How do charities tell the public what they want to know?](#)

[Public Trust 4: our action plan on Governance.](#)

"If you know what matters to the public, and you act on it decisively, you can regain trust - we've seen that in other sectors," said Sarah Atkinson, Director of Policy & Communications.

The four blogs provide an analysis of what the report says about the drop in trust, comments on what charities can do to be more accountable to the public, what tools the public can use to find out more about the charity they are donating time or money to, and a look at governance in the sector and how it can be improved. The blogs are available on the GOV.UK website:

<https://www.gov.uk/government/news/what-can-we-do-to-build-public-trust-in-charities>

Charity Commission – Take early steps to manage financial difficulties

The Commission in September 2016 published 2 reports as part of a proactive project exploring the financial resilience of the charitable sector and identifying wider lessons for charities who may be experiencing financial distress.

The case studies demonstrate that early steps to address financial difficulties and confront them pragmatically minimised the risk to beneficiaries. Charities have a number of different options to explore including the possibilities of mergers and collaborations to achieve positive outcomes despite financial difficulties.

There are some key messages from the reports.

- Being prepared to address financial difficulties effectively is an important part of a trustee's duties to act in the charity's best interests, manage the charity's resources effectively and ensure the charity is accountable.
- Charities that are able to identify pressures and risks early are best placed to address them.
- The Commission expect trustees to take seriously any concerns expressed by their charity's auditor or independent examiner and take appropriate action in response.

The Commission has provided guidance to help trustees identify and deal with situations of financial difficulty, in particular planning for and managing financial difficulties in CC12. The future outlook for charities remains challenging and trustees must stay alert to the risks of financial distress and manage them actively.

The reports are available on the GOV.UK website:

<https://www.gov.uk/government/publications/accounts-monitoring-charities-with-audit-reports-identifying-that-they-may-be-in-financial-difficulty>

<https://www.gov.uk/government/publications/charities-at-risk-of-financial-distress-group-case-report>

Charity Commission - Charities and litigation: a guide for trustees

In August 2016 the Commission published new guidance on what charity trustees need to know when thinking about taking or defending legal action generally, and when the Commission needs to be involved.

The guidance applies to all types of legal action that a charity might have to take or defend but not to criminal cases or challenges to decisions by the Commission. It is relevant to all charities whether they are CIOs, companies, trusts, membership bodies or have another structure and also applies to both registered and unregistered charities.

The guidance is available on the GOV.UK website:

<https://www.gov.uk/government/publications/charities-and-litigation-a-guide-for-trustees-cc38/charities-and-litigation-a-guide-for-trustees>

Brexit and Charities

Much has been written about the possible impact of the EU referendum on the UK economy, on business and charities. However given the uncertainties around the UK's exit negotiations it is not possible to fully evaluate the impact. This makes planning for the future hard particularly given other challenges the UK charity sector has been facing over the last year.

The only certainty then is that there will be uncertainty, at least in the medium term and charities like all other businesses need to factor this into in their future planning. Organisations that survive and even flourish will be those that cope with the uncertainties and make good lasting decisions.

We believe that there are six key areas that charity trustees may need to review following the Brexit referendum:

- Strategies and scenario planning
- Management structures and skills including those of Trustees

- Budgeting and planning
- Performance management
- Reserves policy
- Risk registers

We have published a paper with more detailed comments in each of these areas on our website.

<https://www.croweclarkwhitehill.co.uk/wp-content/uploads/sites/2/2015/12/Brexit-and-charities.pdf>

Making digital work: 12 questions for trustees to consider

The Charity Commission in October 2016 published some key questions covering the use of digital technology that every board needs to talk about. The questions cover 12 areas, many of which are the bread and butter of board meetings such as governance, supporting new trustees and managing reputation.

However, as digital technology now cuts across everything that charities do, from fundraising to strategy to service delivery, the questions are provided as a starting point for discussions and cover the essentials and to help trustees ensure that they build digital technology into their discussions.

The 12 question areas are Governance, Induction of new trustees, People, Strategy, Culture, Service delivery, Brand, Reputation, Fundraising, Cyber security, Evaluation and success and Resources, and the questions are available on the Gov.UK website <https://www.gov.uk/government/publications/making-digital-work-12-questions-for-trustees-to-consider> .

Donations to Charities (Gift Aid Declarations) Regulations 2016

These Regulations, which came into force on 6 April 2017, are intended to make it easier for donors to give Gift Aided donations to charities through digital channels, such as online, SMS text messages and twitter.

These digital channels are often hosted by businesses with expertise in information technology. These businesses are referred to as donor intermediaries and often collect donations and Gift Aid Declaration ("GAD") details from donors on behalf of multiple charities.

The Regulations will give donor intermediaries the ability, when authorised by the donor, to create GADs on the behalf of a donor for the rest of a tax year.

The regulations require that the donor intermediary must give an explanation of the effect of section 424 of ITA 2007 to the donor before creating any GADs on their behalf. They must also, by the 31st May immediately following the end of a tax year during which a donor intermediary has given a gift aid declaration on behalf of a donor, send the donor (unless they made only one donation or the aggregate value of their donations was £20 or less) a statement in writing setting out prescribed information in relation to that donor.

The regulations are available on the Gov.UK website
<http://www.legislation.gov.uk/ukSI/2016/1195/contents/made> .

Appendix 9 - Upcoming Non Profits events, courses and briefings

We believe it is important to keep our clients up to date on the issues that affect them. As a part of our ongoing communication, we regularly hold seminars and courses. Below are details of our upcoming events – please visit our website or register to our mailing list to stay updated - nonprofits@crowecw.co.uk

Breakfast briefings

These briefings will be run by experts from our Non Profits team on topical issues as they emerge. Registration and breakfast at these briefings is from 8:30, the sessions commence at 9:00 and aim to end at 10:00.

- | | |
|--|--------------|
| • Managing investments | 26 Sept 2017 |
| • Fraud Resilience in the charity sector | 16 Oct 2017 |
| • Finance function of the future | 7 Nov 2017 |
| • Bond finance | 4 Dec 2017 |

Other seminars and conferences

- | | |
|------------------------|------------|
| • INGO conference 2017 | 8 Nov 2017 |
|------------------------|------------|

Trustee essentials

Our Trustee essentials seminars have been developed to consider the issues facing trustees. We will take an in-depth look at the key areas of responsibility which will provide trustees with useful information, tools and techniques. These sessions cost £50 each and are full day seminars.

- | | |
|----------------------|--------------|
| • Trustee essentials | 22 Sept 2017 |
| • Trustee essentials | 30 Oct 2017 |
| • Trustee essentials | 21 Nov 2017 |

Tax training courses

These interactive training courses are run with a small number of delegates at a cost *£165 **£225 ***£250 ****£330. The sessions commence at 9:00.

- | | |
|-----------------------------------|-------------|
| • Introduction to charity VAT**** | 5 Oct 2017 |
| • VAT relief for charities ** | 15 Nov 2017 |

Further information and registration

To register for any of the above events, please visit our website <https://www.croweclarkwhitehill.co.uk/home/sectors-overview/not-for-profit/> or email nonprofits@crowecw.co.uk



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