

charity workshop

Issue 3 – 2007

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Appointing a Trustee

Trustees play a critical role in charities. They safeguard the interests of the beneficiaries of the charity. It is important to take sufficient time and use the correct procedures to appoint the right person to join your Board of Trustees.

Most people who apply have sufficient time to undertake the role coupled with relevant sector experience (where necessary) and/or a personal passion for the particular charity. You will need to select a candidate who can complement the existing skills on the Board but who can also interact well with colleagues. Finding the right trustee can be a difficult task. It can often take at least six months to find the right trustee – so start planning early!

Here is our six point plan for recruiting a trustee:

1. Advertise The Position

The recruitment process needs to be transparent and fair to all applicants. The Office of the Commissioner for Public Appointments (OCPA) Code of Best Practice stipulates that all Trustee positions need to be advertised. For larger charities, the appointments sections of national newspapers are effective. For those with smaller budgets, the charity jobsites, trade press such as Third Sector or local media tend to be used. It is important to encourage a wide range of people to apply. Although you may stipulate the professional background required for the role, you must not of course discriminate on any other grounds.

Appointing a Trustee (continued)

2. Form a Recruitment Panel

Form a Recruitment Panel out of the Trustee Board. This should include a recruitment chairman, one or two trustees and ideally an OCPA trained assessor.

3. Collate An Information Pack

As part of the transparent process, it is important that all candidates who apply for the position are sent exactly the same information about the charity and the role.

4. Screen The CVs

Be open minded when you screen through the CVs. Try to add an extra dimension to the existing Board, selecting candidates for interview with relevant skills for the role as well as a new set of skills for the Board.

5. Ask The Right Questions

Prepare a list of open-ended questions in advance of the interviews. These could include:

- Why are you applying to become a trustee of this charity?
- Describe the role of a trustee in general and in particular to this charity?
- What experience do you have in dealing with public bodies at either a national or local level?
- How would you deal with a situation if your views are in opposition to the rest of the Board?

6. Check Out References

Although this is a voluntary position, it is still vital to check out character and professional references. After all, the charity is dealing with public money – whether from taxes or from collections – and it is important that the trustees have a high degree of integrity.

Case Study: Appointing a Trustee and Chair of Trustees

Balanced People, the recruitment division of Kingston Smith LLP are long established in recruiting for the not for profit sector, was briefed to source a Trustee and Chair of Trustees for a government-funded discretionary charitable trust in the healthcare sector. The Board wanted to attract candidates with a broad background and decided to place an advert in The Sunday Times, at a cost of £5,000. John West, Director at Balanced People, drafted the advertisement, highlighting the time commitment of the role and the skills needed.

The Trust was seeking people with proven successful backgrounds which may have included experience in health or social services, other public services, strategic finance, law, commerce and industry and who may have had government and Civil Service contact. Candidates also needed outstanding communication and reasoning skills, to be socially adept, politically sensitive and to have some knowledge of how government works.

This was a difficult recruitment exercise, combining the right experience for the charity but also someone with the right personality. The Chief Executive had asked for someone 'with a hard head and a soft heart'. A total of 30 candidates responded to The Sunday Times advertisement. 15 were selected for interview and a shortlist of six was created for the recruitment panel to interview. The panel was impressed with the quality of the candidates and the vacancies were filled.

The recruitment process followed all the correct codes of practice. The advertisement was drafted carefully to ensure that it attracted a high calibre of candidates with the right business and social skills. The candidates on the shortlist were all very impressive in different ways – so much so that the Trust not only filled the two advertised vacancies but has also since made two further Trustee appointments from the original shortlist of six people. There is confidence, therefore, that the candidates appointed all have the right skills and passion to help the charity to operate highly effectively.

If you would like advice about recruiting a trustee, contact:

John West at Balanced People

T 020 7306 5670

E jw@balanced.co.uk

How to change your bank

Best practise suggests that charitable organisations should be reviewing their banking service in line with all other suppliers every three to five years. How many actually do?

The shape of the banking industry has been transformed over the last ten years and with that change has come an increasing number of banks that are keen to develop their business in the charity and voluntary sector.

Charities should ask:

- **Have we ever reviewed?**
- **When was the last time?**
- **Have we looked at the charity banking marketplace?**
- **Are we aware of the competition that exists?**

Once you have concluded that you should undertake a review the next step is to decide which banks to put on the shortlist to tender. Consider the following when deciding:

Known abilities – specifically with your existing bank but also with any previous experience as an employee or Trustee

Recommendation – a strong influence. Recommendation from colleagues, affiliates, Trustees, national or local umbrella groups

Ethics – becoming increasingly important in the sector with initiatives like ‘Every Action Counts’ which encourages organisations to shop ethically. Are banks taking their corporate social responsibilities seriously? What are their investment policies? Who do they lend money to?

Suitability – does the choice suit the need? For example, a large overseas non-government organisation (NGO) undertaking regular foreign transactions will need to be confident that their supplier has sufficient global coverage and expertise to ensure funds reach their destination timely and at reasonable cost

Press surveys – publications such as Charity Finance undertake regular satisfaction surveys.

A formal tender document should be prepared providing the invited bank with the following information:

- **An outline brief of your organisation including its structure**
- **The organisation’s legal status**
- **Any known borrowing requirements – whether cash flow or capital**
- **Current banking terms**
- **Breakdown of activity – transactions by cheque, cash, BACS, salaries, on-line payments, etc**
- **Two years’ audited accounts**
- **Cash forecasts for the next 12 months.**

This information will allow the banks the opportunity to evaluate whether they should submit a bid to service your charity. Analysis will be undertaken to establish what level of profit may be made and if that level is satisfactory.

When tendering you should create an achievable timetable and that the selection process is acceptable to the Trustee Board. The timetable may be:

- **Invitations to a number of banks to express an interest**
- **Tender release date**
- **Date for submissions**
- **Short-listing**
- **Presentations**
- **Decision**
- **Date of transfer.**

Ten useful points to remember when thinking about changing your bank:

1. **When did you last review, if ever?**
 2. **Which banks do you ask?**
 3. **Are they known in the sector?**
 4. **Trustees – who do they know?**
- (At this point decide who to invite to tender)**
5. **Create a timetable**
 6. **Draw up the tender document**
 7. **Invite visits from a “long list” to enable the banks to understand your charity**
- (At this point you will have enough information to create the shortlist)**
8. **Undertake the interviews**
 9. **Plan the transfer over a couple of months**
 10. **Develop the bank/customer relationship.**

If you have any queries, please contact Beverley Ham or Adrian Dadds at Blacktower Financial Advisers Limited on 020 8336 6350.

Don't forget these Companies Act requirements for Trustees' Reports

For the majority of incorporated charities full compliance with the requirements of SORP 2005 for the Trustees' Report will ensure compliance with the Companies Act, provided that a statement about provision of all relevant information to the auditors is added, when the financial statements are subject to audit.

For those incorporated charities that fall into the medium or large categories (see box) there are some additional requirements.

	Small	Medium	Large
Turnover	Below £5.6 million	£5.6 – £22.8 million	Over £22.8 million
Balance sheet total (Fixed assets & current assets)	Below £2.8 million	£2.8 – £11.4 million	Over £11.4 million
Number of employees	Fewer than 50	Fewer than 250	More than 250

To qualify for a category the company needs to meet 2 of the 3 criteria, noting that the turnover limits are adjusted when the accounting period is anything other than 12 months.

The basic business review requirement

The basic requirement under section 234ZZB of the Companies Act 1985 is for a fair review of the business which is a balanced and comprehensive analysis of the development and performance of the business during the financial period and the position at the end of it. The review is expected to be consistent with the size and complexity of the business and should include the use of key financial performance indicators (KFPIs). The review should include reference to, and explanations of, amounts included in the accounts.

The additional disclosures

Large companies must, in their business review, use other key performance indicators, in addition to KFPIs, including information related to environmental and employee matters.

Risk – the business review must include a description of the principle risks and uncertainties facing the charity. (This goes further than the statement required by the SORP that risks have been reviewed and systems and procedures put in place to manage them).

Research and development – the report should give an indication of any research and development activities carried out by the company, or any of its subsidiaries.

Overseas branches – the report should give an indication of any branches of the company held outside the UK.

Disability – where the average number of staff is more than 250 a week the report should include a statement describing the company's policies for recruitment, training and career development and promotion of disabled persons.

Employee involvement – where the average number of staff is more than 250 a week the report must include a statement describing the actions taken in the year to introduce or maintain arrangements that: provide information to employees, enable the employer to consult staff about decisions likely to affect them, encourage involvement in the company's performance, and inform staff of the financial and economic factors affecting the company's performance.

Payment of creditors – large companies only are required to include a statement of the company's policy and practice on the payment of creditors.

For further clarification on what reporting requirements apply to your organisation please speak to your client partner or manager.

Gift Aid review

Gift aid on donations by tax paying individuals provides many charities in the UK with a valuable additional income stream. The scheme is one that informed taxpayers are conversant with and happy to assist when requested to do so. However non-compliance with current gift aid regulations, or a failure to maximise revenue from areas where gift aid could be claimed, can leave charities financially exposed. In addition to missed revenue opportunities which affect the bottom line, the lodging of incorrect claims can leave the charity open to a fine from HMRC.

Board members within the sector place their trust in the employees or volunteers managing the day-to-day running of a charity to ensure that the fine detail relating to gift aid is correctly handled and it is rare to see the issue of non-compliance listed within risk registers. Kingston Smith's gift aid audit service covers two main areas: assessment of an organisation's internal methodology relating to all aspects of the gift aid claim, followed by an audit of donor transactions with the charity to ensure that opportunities for claiming of gift aid are maximised for all opportunities that are eligible.

Included within the service is assessment of the organisation's overall claim rate, against the market average. Analysis of the systems used to collect and process gift aid can provide opportunities to improve the claim rate, allowing additional income to be budgeted year on year. If a charity has a high volume of gift aid claims to process per annum it can prove more cost effective to outsource this function. By separating out this function, charities can see their overall claim rate rise, safe in the knowledge that claims are compliant with current regulations, including data protection.

Discussions with clients have highlighted that financial projections founded on assumptions of how gift aid can be applied can prove crucial to their bottom line. Examples of non-compliance uncovered during previous gift aid audits have included charities claiming gift aid on donations made verbally, but failing to contact the donor in writing to confirm their instructions, and organisations claiming for transactions that are ineligible for gift aid due to their nature. Early detection has ensured that predictions within the year can be adjusted.

By auditing this stream of income, trustees can be assured that their charity is both compliant and also claiming the maximum income from their transactions with donors.

For more information, please contact Verena Cornwall at Kingston Smith LLP on 020 7566 4000.

Tax – Investing issues

Recently two tax issues have arisen in connection with investments by charities which have caused concern in the charity sector. Though they will not apply to many charities it is important that organisations are aware of them. In practice they are probably mainly going to arise where a charity invests through a common investment fund.

Bond-washing

There is no tax exemption for charities on income arising from bond-washing. As a result HMRC recently picked up significant tax from some charities and threatened to set up major enquiries into charities to identify bond-washing liabilities. HMRC have since fortunately stepped back from such an aggressive stance but you still need to be aware of the potential tax exposure.

Bond-washing is where a charity purchases a security and then sells the security and as a result of the buying and selling of the security the interest payable on the security is received by the charity. That interest is then taxable on the charity and is not exempt. However, this does not apply if:

- the charity is required before it sells the security to pay the interest to the original holder of the security or;
- the charity hold the security for at least six months or;
- the charity holds the security for at least a month, the security is bought and sold for market value and there was no arrangement to sell the security when the security was purchased.

The fact therefore that a charity buys and sells bonds with accrued interest in its own portfolio should not automatically mean that the income becomes taxable.

Capital Gains Tax (“CGT”)

Generally, a charity will not expect to pay CGT. However, recently circumstances have arisen where a charity may have a CGT liability. This will be where the charity directly or indirectly, through say a common investment fund, invests in an overseas company. If such a foreign company is:

- a Close company (see overleaf)
- sells an asset that if it was a UK resident company would give rise to a taxable gain (eg investments, land, goodwill).

Tax – Investing issues (continued)

Then the foreign company's gain is apportioned to each of the shareholders in the company by virtue of their holding through the common investment fund, and then they can be subject to CGT on their proportion of the foreign company's gain.

A Close company is broadly a company where over 50% of the voting power, or over 50% of the share capital or over 50% of the share and loan capital is owned by the directors of the company or by five or fewer shareholders. If, however, the company is controlled by another company it will only be Close if that other company is Close. You should note most

listed companies are unlikely to be Close. The main exposure lies with investments in foreign private companies.

There is no specific exemption for charities under this legislation. In addition as any gain is only deemed rather than actually received by the charity, it can not be said to have been applied for charitable purposes. Therefore the normal CGT exemption for charities does not apply and therefore it is a real tax bill.

For more information, please contact David Hadley at Kingston Smith LLP on 020 7566 4000.



Kingston Smith LLP deliver an integrated range of professional services and independent advice to the charities and not for profit sector including audit and accountancy, governance and fundraising, IT strategy and consultancy, human resources, administration outsourcing, tax and VAT services. Voted best all-round charity auditor for four consecutive years by readers of Charity Finance

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