



BAKER TILLY

VOLUNTARY SECTOR
GOVERNANCE
SURVEY 2008



IN ASSOCIATION WITH *CharityFinance* **governance**
essential information for effective trustees

Foreword

It is almost two years since we last published in-depth findings on governance in the charity sector. *The 2008 Baker Tilly Voluntary Sector Governance Survey*, in association with *Charity Finance* and *governance* aims to build on the findings of the results of the Autumn 2006 research published in February 2007, and previous research in 2000 and 2003. Through this we have been able to track trends in a number of areas including operational structures, performance measurement, internal controls and reporting, as well as highlight new concerns for trustees.

While some issues remain ongoing, a focus on the level of financial information that trustees require and receive is especially apposite given concerns about the economy and how the charity sector will be affected by a downturn. Additionally, new reporting requirements around public benefit and implementing policies on sensitive data and money laundering all add to the more traditional grievance concerns.

We hope the findings contained over the following pages are both useful in enabling you to benchmark where your governance is compared to other charities, and in highlighting areas for improvement. What is clear over the period this research has been undertaken is that governance standards have undoubtedly improved across the charity sector. However, this is no time for charities to rest on their laurels.

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 Design by RF Design
 Printed by Duffield Printers (Leeds)
 Cover image: www.iStockphoto.com

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Executive summary

The Baker Tilly Voluntary Sector Governance Survey 2008 covers responses from over 550 organisations.

A wide range of organisations responded and this is summarised in the table opposite. Across the whole sample the funding profile was very similar to the last survey; some 30 per cent of income came from fees and statutory sources, a quarter from grants, 23 per cent from legacies and fundraising, 12 percent from investments and 7 per cent from non-charitable trading.

While governance within the voluntary sector has undoubtedly improved since this research was first carried out in 2000, the survey highlights a number of areas that require attention. Awareness of these failings may be the problem as 26 per cent of charities have not reviewed their governance in the previous three years, only 17 per cent review the performance of individual trustees, just a third have done a trustee skills audit recently and more than a quarter of charities have not appraised their CEO in the last two years.

Despite the Charities Statement of Recommended Practice (Sorp) 2005 introducing a requirement for charities to make a statement on the induction and training of their trustees, 16 per cent of organisations with income above £250,000 do not have a formal induction process for trustees and 40 per cent of all respondents say they do not allocate resources for training. Maybe it is to be expected therefore that 40 per cent of charities still have difficulty in recruiting trustees.

Not surprisingly, over half of respondents think the economy will have a significant impact on

Income	£0 – £250,000	£250,000 – £500,000	£500,000 – £1m	£1m – £5m	£5m – £25m	> £25m
%	17.2%	11.0%	15.9%	31.8%	15.4%	8.7%
Paid staff	0 – 10	11 – 25	26 – 50	51 – 100	101 – 250	> 250
%	34.7%	17.4%	11.4%	12.1%	13.0%	11.4%
Balance sheet	£0 – £100,000	£100,000 – £1m	£1m – £5m	£5m – £25m	£25m – £100m	> £100m
%	13.7%	28.6%	26.2%	19.9%	7.1%	4.6%

their charities over the next two years and 4 per cent even fear closure. Yet despite this, the level of both financial expertise and information available to boards is not as high as one would like. While trustees do not necessarily have to be technical accounting experts, having a basic grounding in finance is now even more important than ever. Yet 78 per cent do not include specific training in financial management in their induction procedures.

And even if the trustees are versed in the finer points of charity finance, the information for decision making they receive in management reports could certainly be more thorough. Only half of boards receive a cash flow analysis, for example. Charity mergers remain rare at only 6 per cent of respondents, even though 90 per cent indicated that the intended benefits of the merger had been achieved and this was principally in the area of efficiency.

The risk management agenda has rightly focused trustees' attention on having appropriate internal controls even though in 24 per cent of charities the systems are undocumented. Encouragingly, the number with a fraud policy has risen from 27 to 48 per cent since 2007. But worryingly, a third of charities that deal with

children and vulnerable adults have not carried out CRB checks on all their trustees. This will need attention with the Independent Safeguarding Authority coming in next year.

In terms of organisational structure, it is perhaps a surprisingly high 10 per cent of respondents who indicate they will convert to the Charitable Incorporated Organisation (CIO), the details of which are currently under consultation. A further 21 per cent say they possibly will, so clearly in some cases the desire to escape dual regulation is overriding caution about being guinea pigs for an as yet untested legal form. A regulatory area that cannot be avoided is the new public benefit test, and significantly 13 per cent of charities expect difficulty with this.

Ultimately, trustees are tasked with providing strategic direction to their charities. The fact that a third are involved with strategy decisions less than a great deal, while 38 per cent are over familiar with operational decision-making, is perhaps the most telling indicator as to where governance performance could most easily be improved.

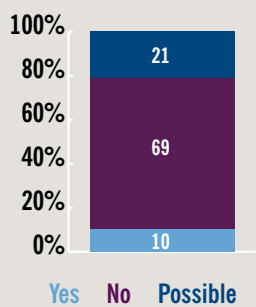
Note on data: Due to figures being rounded to the nearest per cent, some of the charts do not add up to 100. ■

Organisational structures

The arrival of the CIO may offer an alternative to those charities struggling with the burden of dual regulation.

Operating as a limited liability company is still the most popular model for a charity, with 72 per cent

Are you considering converting to become a Charitable Incorporated Organisation?



of respondents being incorporated, a similar figure to 2007. In 2000 the figure was 60 per cent.

However, a realistic alternative to the dual burden of reporting to the Charity Commission and Companies House is on the horizon with detailed regulations for the long-awaited Charitable Incorporated Organisation (CIO) currently being consulted upon.

Despite caution being advised about early adoption by a number of charity lawyers, who are waiting for the fine details to be ironed out, 10 per cent of respondents say they will convert and a further 21 per cent say they are considering it. This will be an encouragement for the Office of the Third Sector.

Nearly two-thirds of respondents do not have a subsidiary, and a further quarter have only one. However, the larger the charity, the more likely it is to have a subsidiary. Three-quarters of the largest charities have at least one and 16 per cent have as many as four. Although subsidiaries may be needed for non-charitable trading or for VAT planning purposes, this complexity in structure is surprising.

The appeal of the Community Interest Company (CIC) or social enterprise model for subsidiaries has reduced slightly. While 4 per cent have already set up a subsidiary in this way, only a further 14 per cent are considering it. ■

How many wholly owned subsidiaries does the charity have?





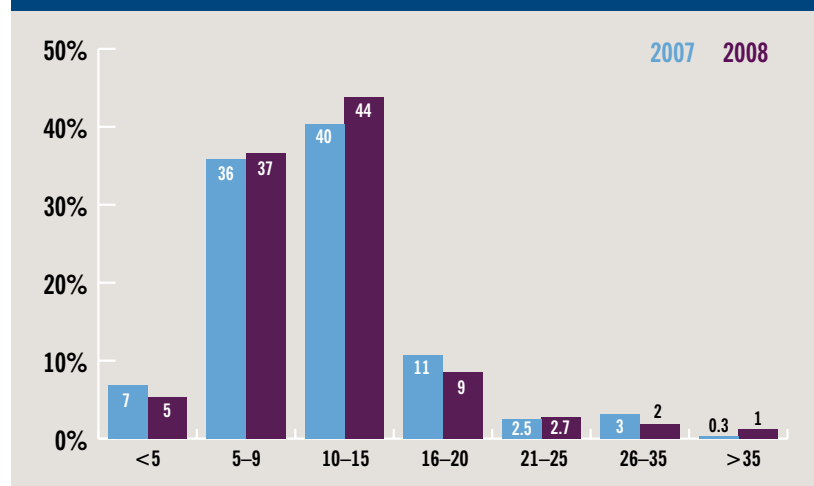
Governance processes

Charity trustee boards continue to streamline in an attempt to ensure more efficient decision-making, but it is important that they do not get too distracted by the operational over the strategic.

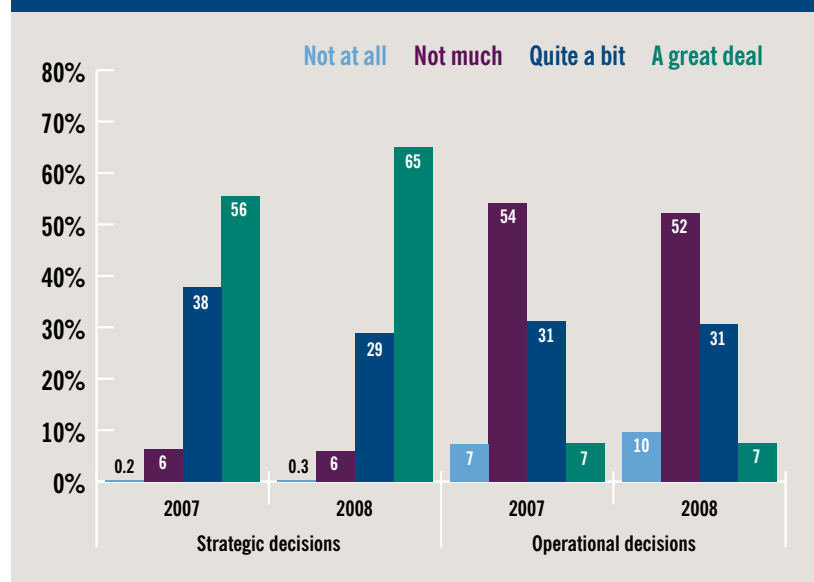
board has no more than 15 members has increased again, from 83 per cent to 86 per cent. Some 44 per cent of these have between 10 and 15 trustees, up from 40 per cent last time, and while there is no magic number, best practice and expert opinion does suggest that for most charities this is the size at which the right mix of skills can be balanced with the number required for effective decision-making.

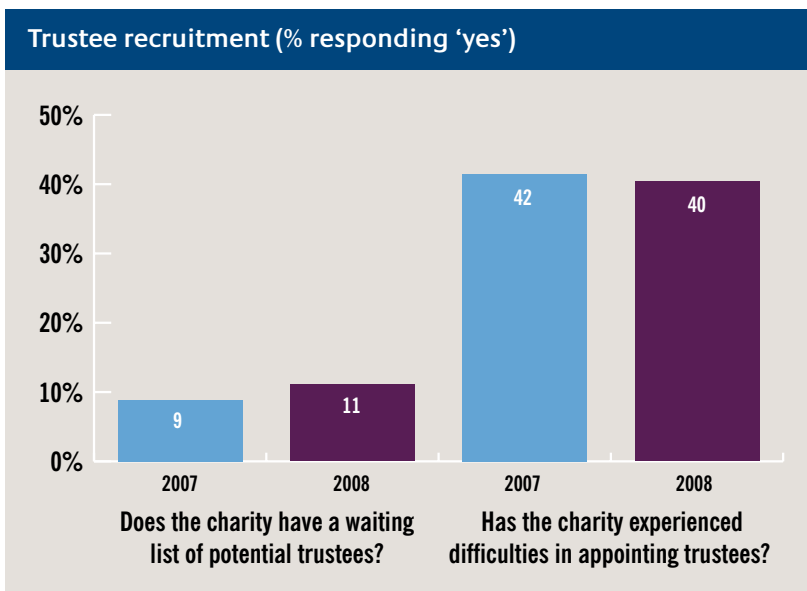
Since 2003 we have noted a trend for boards to become more streamlined. The number of charities whose

How many trustees does the charity have?



How involved are trustees in decision-making?



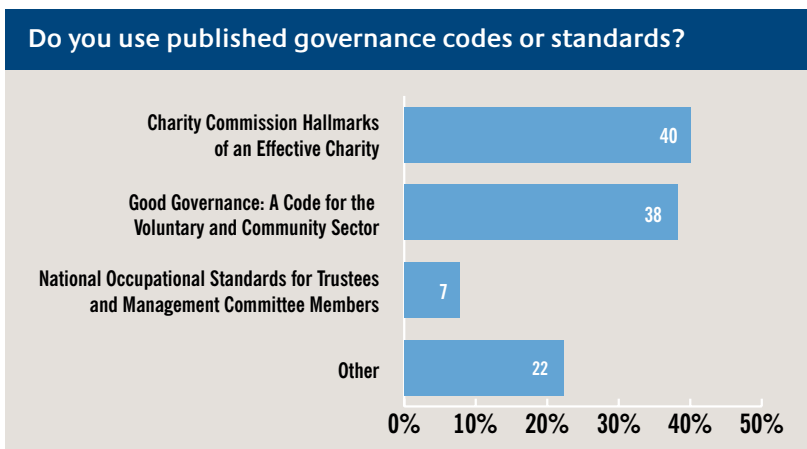


of charities say they have had difficulties in making appointments, down slightly on 2007, and 11 per cent say they have a waiting list of potential trustees, up from 9 per cent. So overall charities still have difficulties finding new trustees.

How trustees are recruited remains a concern with two-thirds of respondents saying replacement trustees are invited to join. Surprisingly, only 58 per cent are using a formal process, which has changed little since 2007. Perhaps of even more concern is the fact that nearly a third of trustees do not automatically retire under the charity's governing instrument after a defined term of office. While charities may be loathe to dispense with committed and expert individuals, especially given the difficulty some organisations have in finding new blood, some kind of turnaround is important to enable fresh thinking.

In 2007, we pondered whether changes in the Charities Act enabling charities to use charitable money to purchase trustee liability insurance (TLI) would affect take-up rates. Two thirds of organisations now have TLI, up from 59 per cent in 2007, and a further 21 per cent are considering it. And 60 per cent feel that it is worth the premium compared to 52 per cent in 2007. Despite the popular argument that TLI's main benefit lies in providing a comfort to prospective trustees, less than half of respondents feel that it is needed to attract new trustees, a similar figure to 2007.

The increased focus on governance effectiveness seems to have increased board self-appraisal. With regards to the use of published governance codes and standards, 78 per cent of charities are using either the Charity Commission's *Hallmarks of an Effective Charity* or the



When it comes to decision-making it is encouraging that 65 per cent of trustees are involved in strategic decisions a great deal, up from 56 per cent in 2007, but still some way short of what would seem to be the appropriate level to fulfil trustee responsibilities, which would be close to 100 per cent. This may well be because they are getting weighed down with operational decision-making, with some 38 per cent of charities admitting their trustees are involved in this either quite a bit or a great deal, unchanged from 2007. 85 per cent of charities

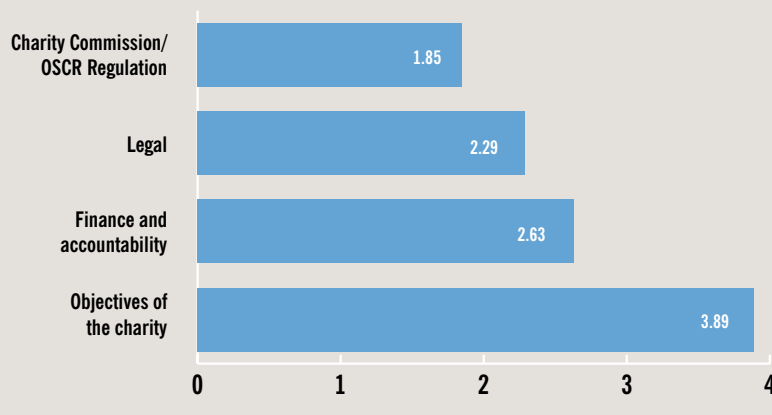
say they have a strategic plan with clear strategic objectives derived from the charity's objects, which is good but does raise a question about the basis upon which the remainder are governing their charities.

When establishing a strategy, 89 per cent take into account financial sustainability, 82 per cent strategic risks, 71 per cent feedback from beneficiaries, 83 per cent external factors and 78 per cent past performance.

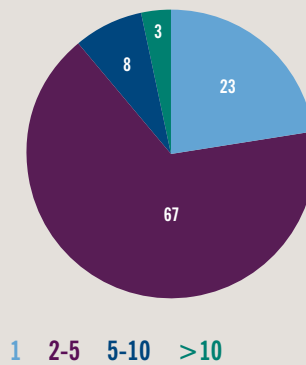
Concerns about trustee recruitment remain but have not got any worse; 40 per cent



On average, how well do your trustees understand the following aspects of the compliance framework?
Scale -5 (not at all) to +5 (very well indeed)



How many committees/sub-committees/working parties does the charity have?



Further information

governance magazine

www.charitygovernance.co.uk

Leadership and Governance National Support Service

www.improvingsupport.org.uk/governance

Charity Commission

www.charitycommission.gov.uk

Baker Tilly

www.bakertilly.co.uk/charities

Charity Finance

www.charityfinance.co.uk

Good Governance Code or both. This utilisation of external best practice is encouraging and it will be interesting to see if this trend continues, particularly as trustee understanding of the compliance framework and

regulation by the Charity Commission and OSCR was poor.

Over three-quarters of respondents have more than one committee, with two-thirds having a finance and general purposes committee, a similar figure to

previous years. The majority of these meet between two and six times a year. A quarter have an audit committee and this figure rises to 83 per cent of the very largest charities.

In organisations that have both finance and audit committees, over half have some overlap between members, and only 42 per cent of audit committees have an independent chair. Since trustee boards by definition will be non-executive, it seems many charities are not concerned about overlap. It will be important therefore that audit committees adopt an independent mindset consistent with their role as the key scrutiny committee of the board. ■

Performance

Board performance will be enhanced if there is a commitment to developing its members' competencies.

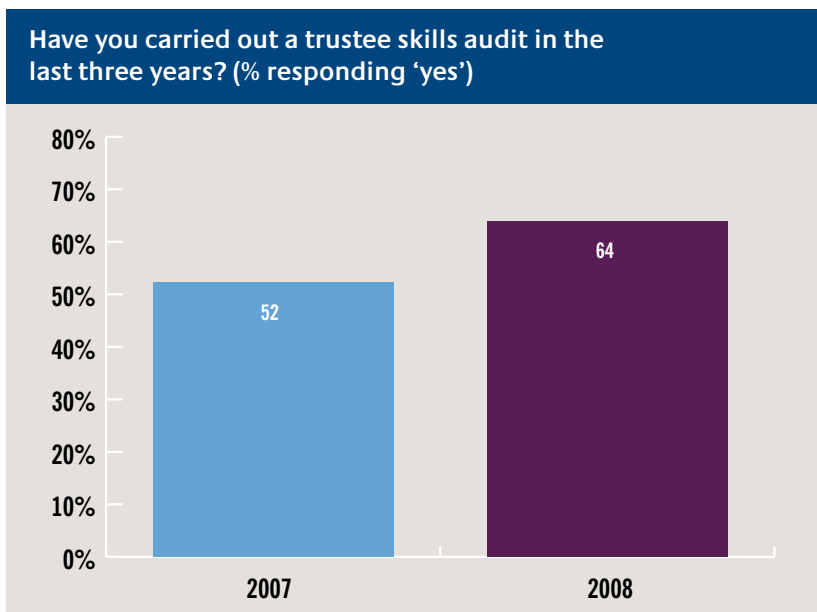
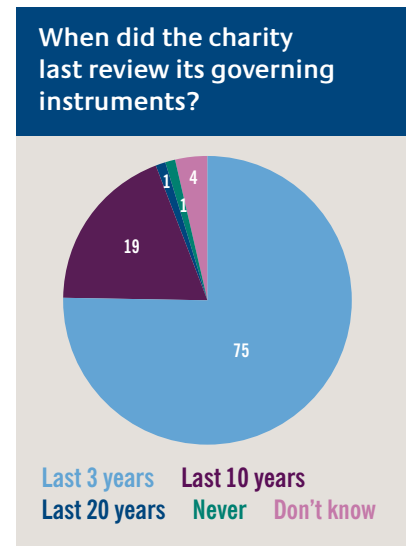
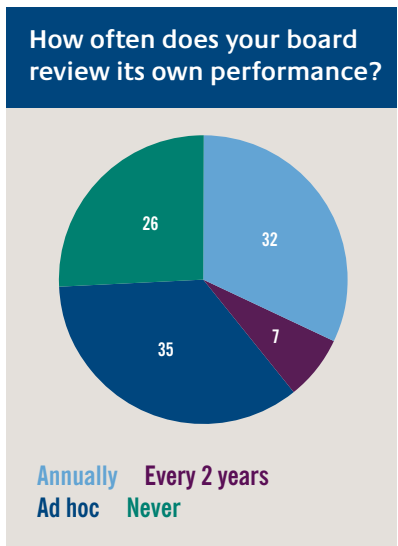
So it is encouraging that some charities have made positive steps, but there is some way to go.

While it's good to see that the vast majority of charities appear to have formal trustee induction processes in place, it's difficult to see how those that don't can ensure new trustees get to grips with their legal responsibilities. Reading our guidance (particularly *The Essential Trustee*) is a good place to start, but charities need to be careful not to throw trustees in at the deep end.

Charity Commission

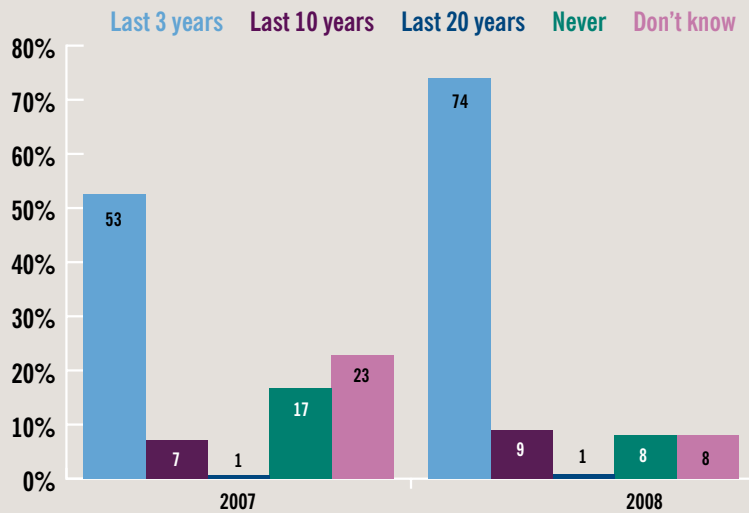
it is encouraging that the figure of those charities who have undertaken a formal skills audit in the last three years has risen from 52 to 64 per cent. Sorp 2005 requires charities to make a statement on trustee induction and training but despite this the number of charities which have a formal induction process for new trustees is virtually unchanged from 2007 at 78 per cent. For those charities above the income threshold of £250,000 this figure

When considering the range of trustees an organisation requires for an effective board, some sort of skills audit is important. Therefore

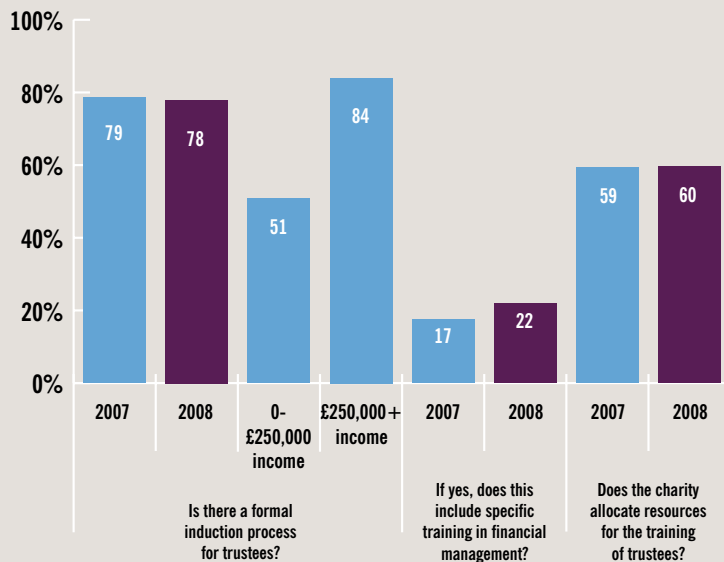




When did the charity last carry out a governance review?



Trustee training (% responding 'yes')



rises to 84 per cent, but there is still some progress to be made here as the process need not be complex. Encouragingly the provision of specific financial management training has increased from 17 to 22 per cent, but this figure is still alarmingly low, especially given the current economic situation and the access that boards have to financial information is explored further in the next section. Perhaps part of the problem with training provision is the allocation of resources, with 40 per cent of organisations saying they provide none.

Undertaking governance reviews is an area that has shown some positive growth. Nearly three quarters of organisations have carried out a review in the last three years compared to 53 per cent in 2007. In 74 per cent of these cases the review was carried out internally, while a quarter used an external consultant. Additionally, 75 per cent have reviewed their governing instrument in the last three years and two-thirds have made amendments, though this may be in light of Charities Act and Companies Act changes.

Worryingly, 26 per cent of boards never review their own performance, although a third undertake an annual assessment. Over 80 per cent do not review the performance of individual trustees. 11 per cent never review the performance of the CEO, and a further 15 per cent only do this on an ad hoc basis. In contrast, 64 per cent do so every year. More encouragingly, with an increased emphasis on demonstrating impact, 83 per cent say the performance and impact of the organisation is reviewed regularly. A range of systems are used, with 36 per cent using bespoke KPIs and 18 per cent using PQASSO or balanced scorecard. These leaves 42 per cent using 'other' measures. ■

Reporting

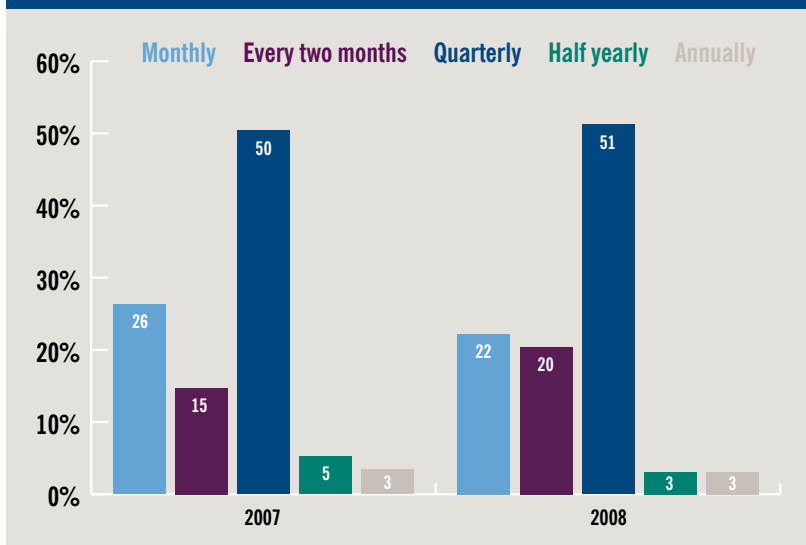
It is crucial that trustees receive timely and digestible information on their charity's finances and performance to enable them to make informed decisions.

Having a handle on the financial position of a charity should always be a key part of a trustees' role, but never more so than in the current environment. And while the management reports organisations are preparing for trustees do generally contain more information than in 2007, there is still a long way to go. For example only half

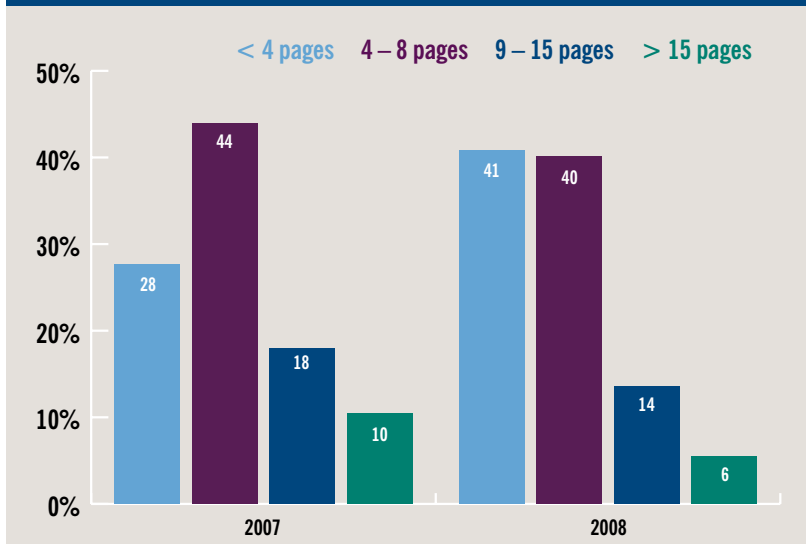
have any cash flow analysis, and a third do not get a balance sheet.

While over 90 per cent of charities present financial information to the board on at least a quarterly basis, some 3 per cent are only reviewing information once a year. The length of reports is getting longer with 72 per cent of charities preparing reports of less than nine pages,

How frequently are financial management reports prepared for all trustees?



How long are these financial management reports?





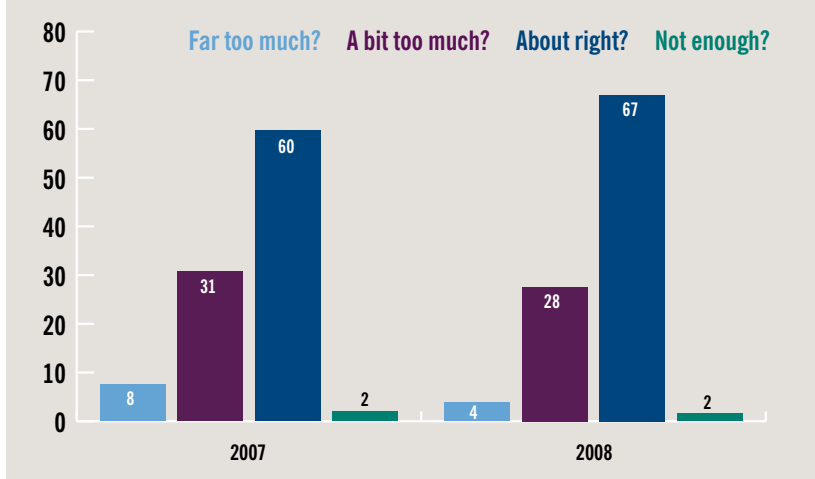
down from 81 per cent in 2007.

Achieving a balance between providing the useful and timely information trustees need to be up-to-date on their organisation's financial position while ensuring that reports are of a length that are easy to digest, is a tricky one. In the current economic climate, more

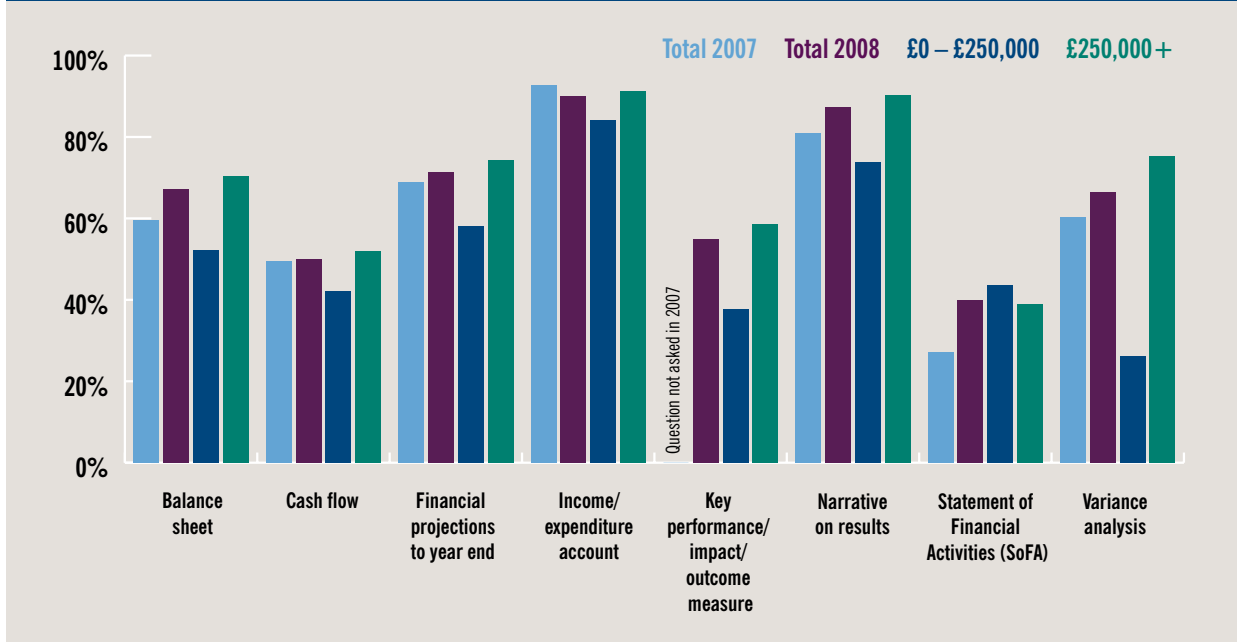
information on charities' balance sheets, and particularly cash, would be expected.

Generally, trustees remain satisfied with the level of external reporting expected of them with two-thirds saying the compliance burden is about right, up from 60 per cent in 2007. ■

Reporting to the Charity Commission and government agencies, is there:



Do these financial management reports include the following?



Board policies

Having appropriate policies enables boards to set an effective environment for governance in their charities.

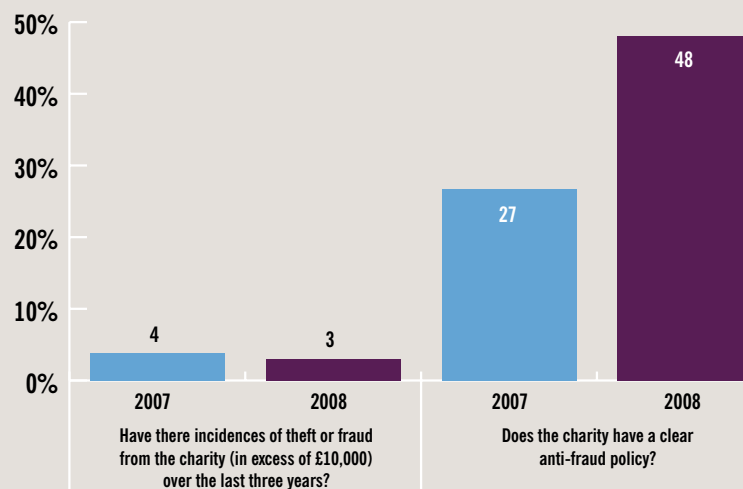
There have been some small but nevertheless positive trends in the board policy frameworks of charities. For example, nearly half of respondents have a clear anti-fraud policy, compared to 27 per cent in 2007. Those that have a clear whistle blowing policy has increased from 51 to 58 per cent

while three quarters have a clear conflicts of interest policy, compared to 65 per cent.

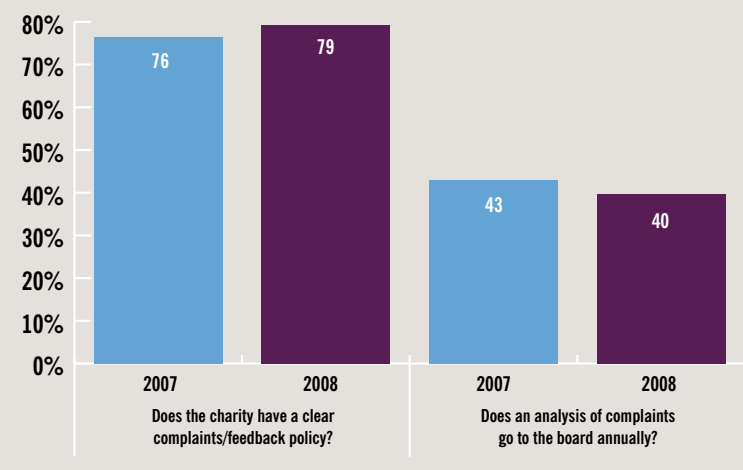
However, a quarter of organisations do not have a documented system of internal controls, up slightly on 2007. This is even the case in 13 per cent of the largest charities. A third of organisations have an internal audit function, either in-house or contracted out, although this is down almost 40 per cent in 2007.

Three-quarters of the very

Fraud (% responding 'yes')



Complaints (% responding 'yes')





largest organisations do, but perhaps surprisingly the comparable figure was 90 per cent in 2007. Whether this is indicative of a general move away from formal internal audit or not will be worth monitoring.

Some findings that might require attention are that only 27 per cent of charities have a policy on money laundering and terrorism. Only two-thirds of charities dealing with children or vulnerable adults run criminal records bureau checks on trustees. And a quarter of charities do not have a policy on the storage of sensitive data despite a number

of high profile data losses over the last year or so.

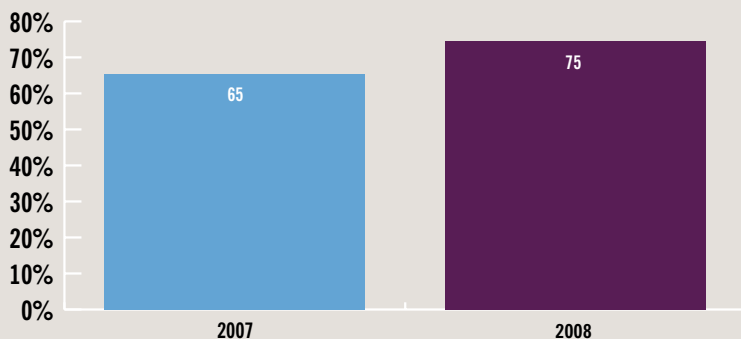
The number of organisations with a clear complaints or feedback policy has increased slightly from 76 to 79 per cent although some 40 per cent of charities do not present an analysis of complaints to the board.

Generally, there are encouraging figures for the extent to which the roles and responsibilities of the board are defined, with 92 per cent responding encouragingly. Some 87 per cent were positive about their finance committee, up from 80 per cent in 2007. ■

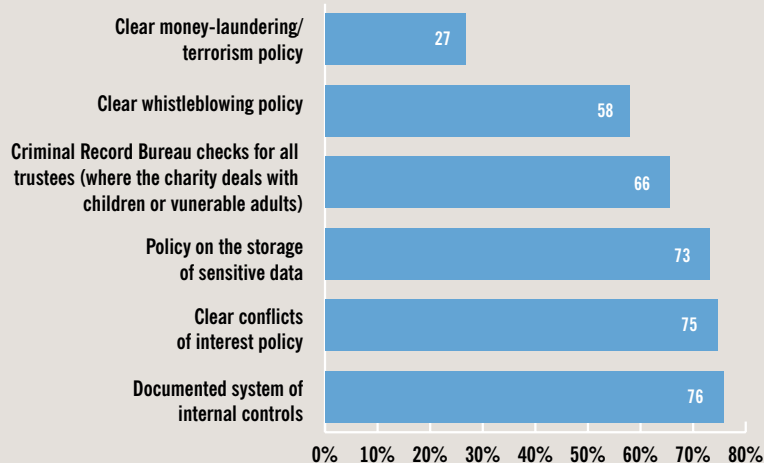
With regard to the figures on CRB checks, some charities may be in breach of the law here where their trustees are in 'regulated positions'. We strongly recommend that charities should obtain CRB checks where they are entitled to do so, and those charities would need good justification for not doing that. And in terms of policies on terrorism or money laundering, while many charities may be at extremely low risk from these threats, all charities should carry out a realistic and proportionate evaluation of the risks they face and put in place appropriate safeguards.

Charity Commission

Does the charity have a clear conflicts of interest policy? (% responding 'yes')



Does your charity have: (% responding 'yes')



Looking ahead

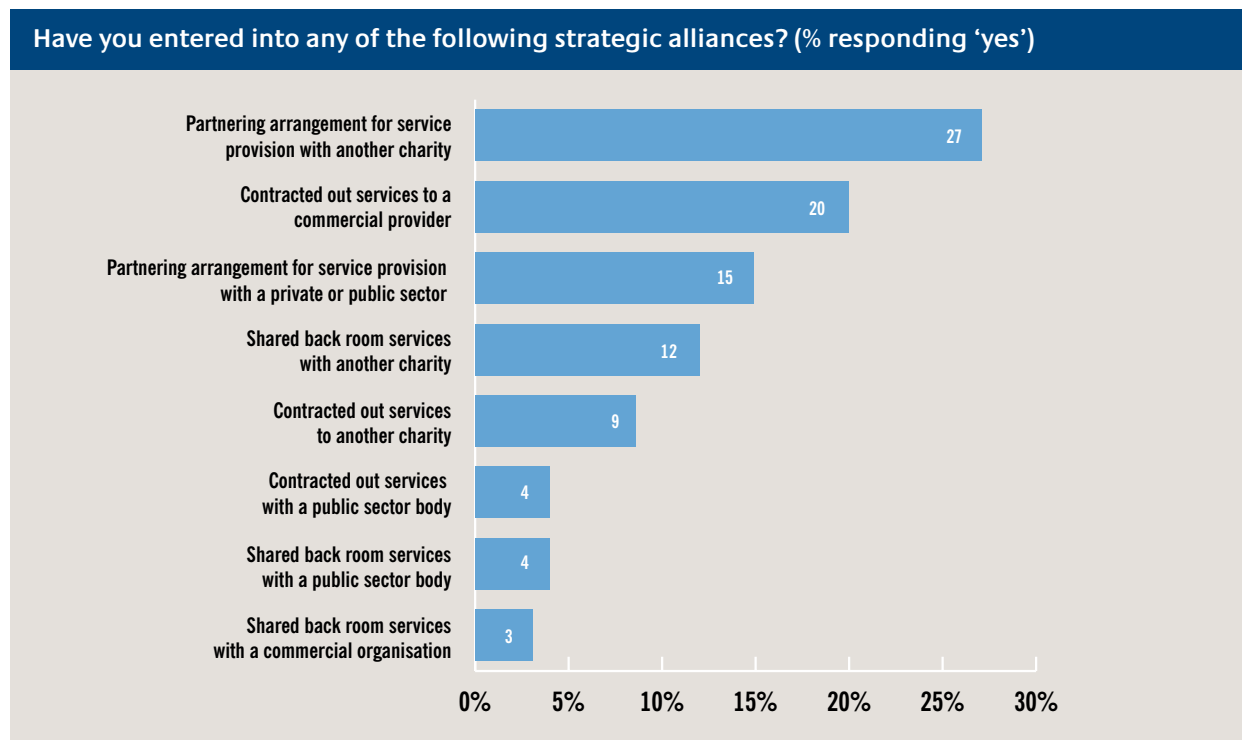
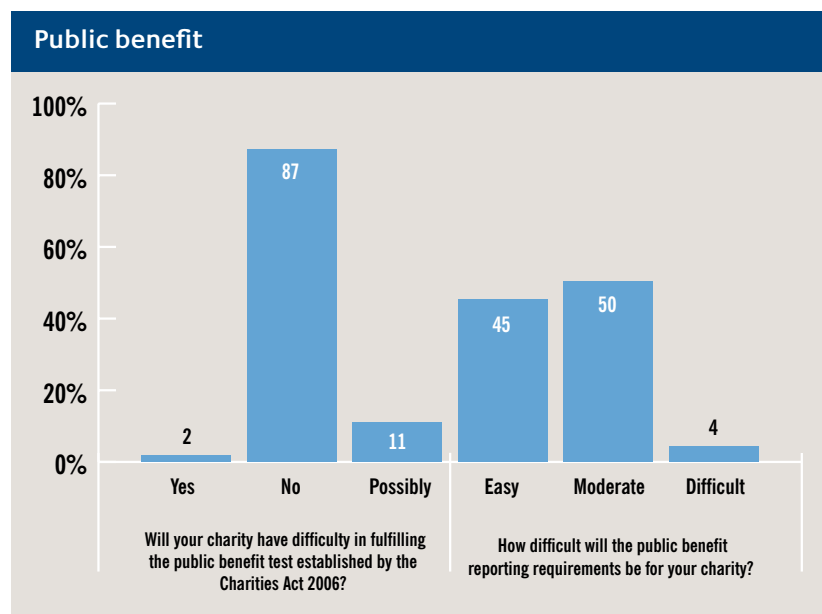
While governance standards continue to improve, changing external factors mean there are always new issues to consider.

When asked how much attention certain aspects of governance will require over the next three years, while all areas have increased, risk management is comfortably the area which comes out on top. Perhaps not surprisingly given the economic downturn, both internal and external financial reporting have increased their perceived importance from 2007. While 44 per cent of respondents think the weakening economy will have no or very little impact on their organisations over

the next two years, worryingly 51 per cent think it will have a significant impact and 4 per cent think it could even result in closure. This figure rises to 10 per cent of the very smallest charities and 11 per cent of those organisations whose

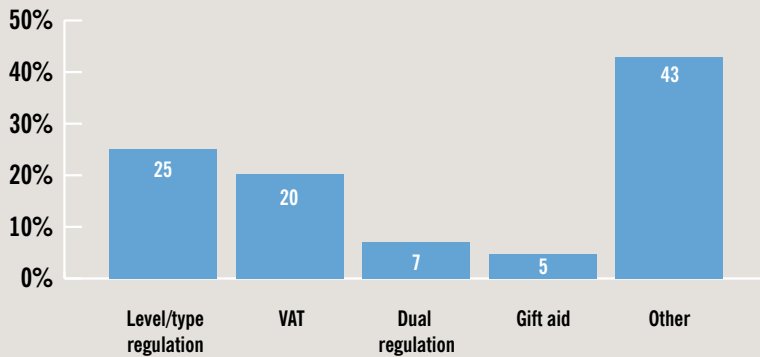
principle income stream is grants.

One area that will be looked at as a way to achieve efficiency is merger or collaboration. Additionally, more charities should look to these options as a means of managing risk, something

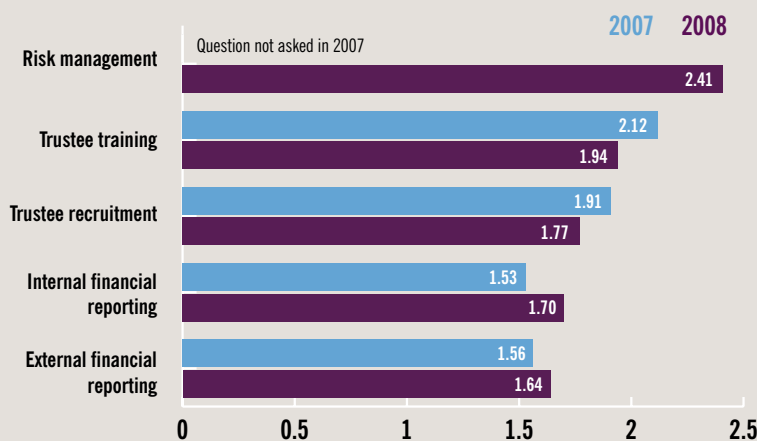




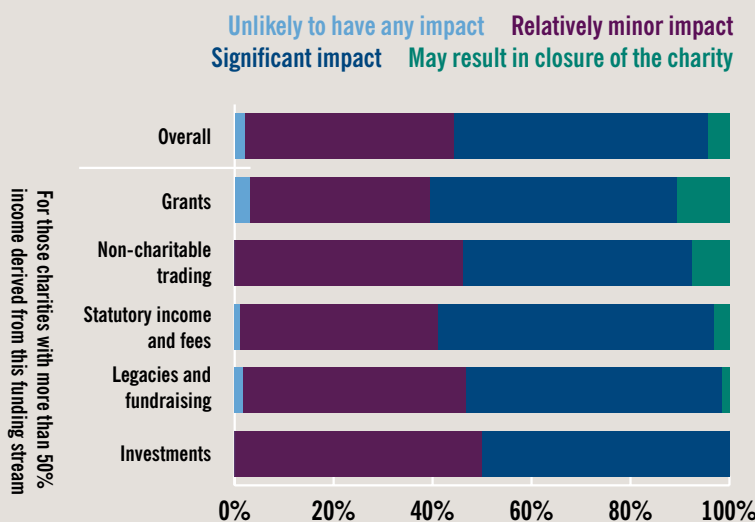
If you could alter one area of charity law, accounting or compliance what would it be?



Compared to today, how much attention do you think the following will require in your charity over the next three years? Scale -5 (very little) to +5 (a great deal)



What is your view of economic conditions facing your charity over the next 2 years?



that is clearly expected to become more of an issue.

The responses generally on this highly topical area were most illuminating and warrant a more detailed review than can be accomplished here. This will take place in the December 2008 edition of *Charity Finance*. While only 6 per cent of organisations said they had undertaken a merger or acquisition in the last two years, the prime reasons for doing so were efficiency of service delivery to beneficiaries or costs. Encouragingly, in over 90 per cent of cases the intended benefits of combination had been realised. However, despite the Charity Commission's new merger

The public benefit figures are encouraging. We have consistently said that we are not expecting large numbers of charities to fail to meet the requirement, and that we will work with charities where needed.

Charity Commission

register, which is aimed at facilitating the process, people are not always informing the Charity Commission early on in the process, and consequently do not feel they're getting value from that interaction.

We can also expect an increase in strategic alliances, with many more collaborations taking place currently than formal mergers. Over a quarter of respondents this time around had partnered with another charity in service provision. Collaborations are also going beyond the charity sector and linking charities with private and public sector organisations. However, some of these positives may be tempered by a concern around the relative instability of collaboration against full merger.

Public benefit reporting has received a lot of media attention yet only 4 per cent of respondents estimate that this will be a difficult area for their organisation. However, while 87 per cent think they will have no problem passing the public benefit test, 2 per cent anticipate an issue and 11 per cent say they possibly will. ■



There may be troubles ahead...

With uncertainties facing many charities the need for good leadership and advice has seldom been more important

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