Issue two

Revive - Refocus - Rebuild

The journey back to better

AZETS

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Introduction

Welcome to issue 2 of revive, refocus and rebuild - the journey back to better.

In this edition we start with a detailed article on Gift Aid from Kirsty; a useful read if you already claim Gift Aid - to ensure that you are maximising the relief. It is also useful to check that you are not missing an opportunity to register and make a claim.

Follow our handy flow chart to take you through the thought process. As important as making sure you maximise the incomings, organisations, you also need to ensure you don't leak funds through threats such as fraud. Martin's article covers the Fraud Triangle and how to manage Fraud more effectively.

Trustees play a key part in your organisation and induction is a crucial building block in ensuring you have adequately briefed and knowledgeable trustees.

John's article covers the key elements of induction, you should consider as part of your onboarding process.

Sitting alongside fully inducted trustees is the importance of having really engaged people, I provide an insight into the top ten behaviours, I feel a trustee should display.

Finally, Scott explores the potential to minimise irrecoverable VAT and the areas that can be reviewed, to minimise the impact of this complex tax.

Our articles are aimed to help you review and improve elements of your organisation to help you on your journey back to better.

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Better Gift Aid

Gift Aid allows a charity or Community Amateur Sports Club (CASC) to claim extra money from HMRC on top of a donation received from an individual.

Providing the individual is a UK taxpayer and has paid sufficient tax, the charity or CASC can claim an extra 25p for every £1 donated.

This means that when an individual donates £100 to a charity instead of simply receiving income of £100, the charity will receive £125. This can significantly boost the total value of donations received over a year. Maximising Gift Aid can produce a vital source of extra funding.

Educating staff and volunteers who interact with donors can boost claims. Proactively following up with donors where authority to Gift Aid is not given or where information is missing can also increase the amount to be claimed.

Charities are normally aware that they can claim Gift Aid on cash donations but sometimes miss other sources. For example, income from a charity auction, entrance fees to view property and using the small Gift Aid donation scheme.

This is often because they don't fully understand the complexities of Gift Aid. When receiving a donation, the charity may wish to acknowledge a donation; often by providing some form of benefit to the donor.

There are certain donor benefit rules but as long as the benefit does not exceed certain limits, the donation will still qualify for Gift Aid. These limits are summarised in the following table:

AMOUNT OF DONATION	MAXIMUM VALUE OF BENEFITS
£0-£100	25% of the value of the donation
Over £101	25% of £100 Plus 5% of £101 up to a total benefit value of £2,500

Entrance to charity property

The donor benefit rules are relaxed where payment is made to view charity property. Gift Aid can be claimed when, either an annual membership is bought, or the individual pays 10% over and above the normal entrance fee. In these cases, Gift Aid can be claimed on the full amounts. It is crucial that staff selling tickets fully understand the Gift Aid rules to promote this to the public and record the correct information to make the Gift Aid claims.

Charity auctions

Gift Aid can only be claimed on genuine gifts and is not available when an individual is provided with something in return (subject to the donor benefit rules above). For example, income from the sale of raffle tickets will not qualify for Gift Aid.

Gift Aid can however be claimed on donations made in a charity auction where the item is commercially available, where the price can be determined and when the donor is aware that the item could be purchased separately. For example, if a donor bids £300 for a game of golf in an auction which is clearly advertised as costing £100, Gift Aid can be claimed on the £200 gift element. Where the item is not commercially available, for example a signed football shirt, Gift Aid cannot be claimed because it is not clear how the payment would be split between the purchase of the football shift and the donation.

Sponsored Challenge Events

There are special rules for claiming Gift Aid on funds raised at sponsored events such as marathons. Where an individual receives sponsorship, the money is not theirs to Gift Aid. The charity should provide a sponsorship form that provides for multiple Gift Aid declarations from the various donors. With challenge events organised by the charity, the individual is often asked to pay an amount plus obtain a certain level of sponsorship, for example pay a £500 deposit and raise £3,000 in donations. Despite the event costing the charity say £2,000, the full £3,000 donations will be eligible for Gift Aid as long as they are not from donors connected with the participant (this would generally be close family).

Gift Aid small donations scheme

This scheme allows charities to claim a top-up payment which is equivalent to Gift Aid, without the need to complete a Gift Aid declaration.

This can be claimed on small cash donations, for example in ‘bucket’ collections or contactless payment donations made to the charity. The limit on donations using this scheme is £30 per donor, with a maximum claim of £2,000 per tax year, per charity.

There are several conditions to using the small donations scheme. The Gift Aid rules are complex but charities that take the time to understand them are likely to find ways to maximise their claims.

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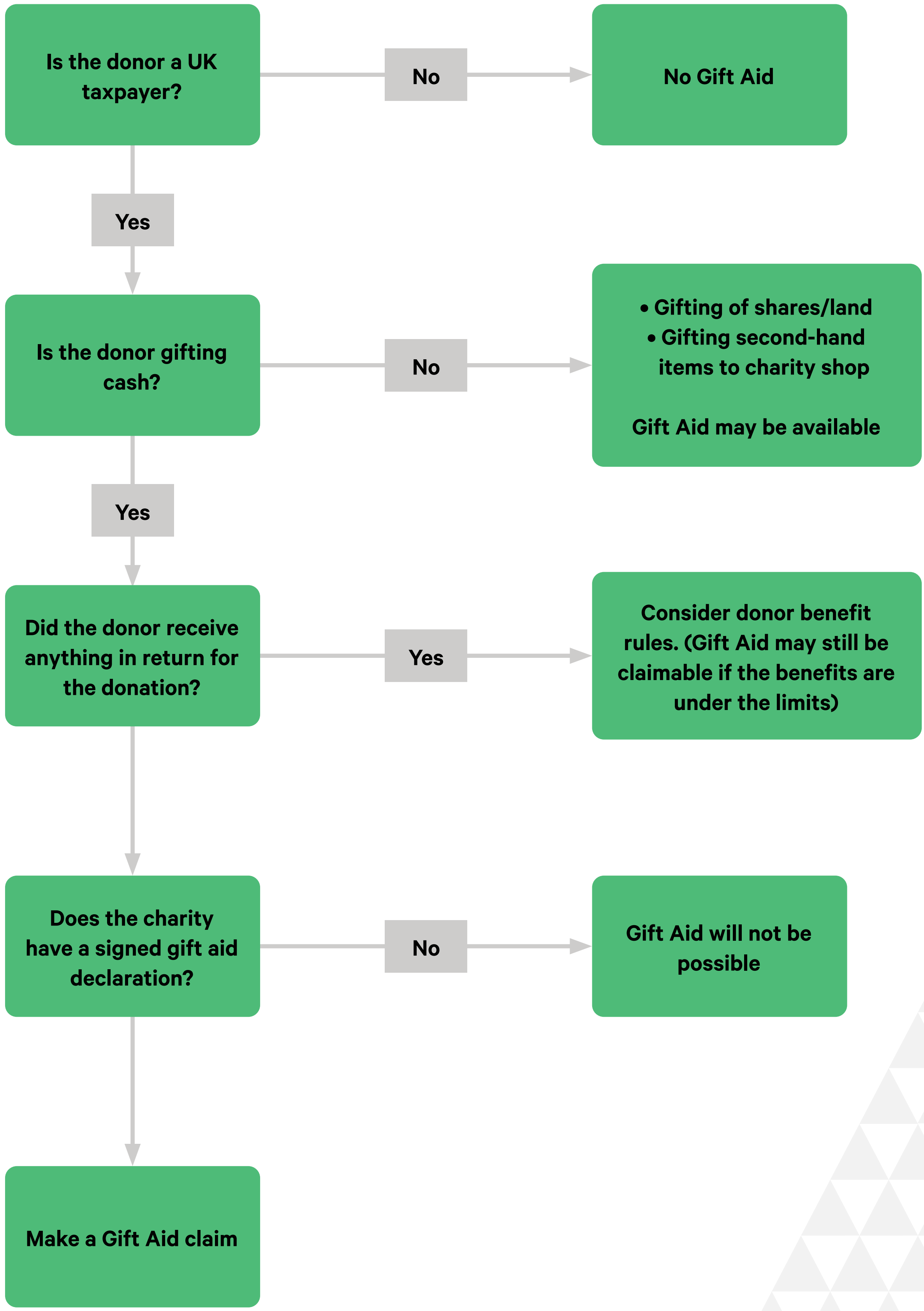
Can a charity claim gift aid?



Better Fraud Management

The Fraud Threat

The threat of fraud to organisations, particularly in the charity sector, is a serious, real and ongoing risk. Fraudsters do not care who, what or where you are when attempting to defraud you.

The scale of fraud in the UK is unknown and very difficult to quantify, but what is accepted is that any attempts merely scratch the surface, and the true value of fraud is far more than detected.

The charity sector is inherently susceptible to fraud due to its operations, such as the use of cash/cheques (decreasingly common in non-charity organisations), ability for fraudsters to embed themselves in charities through volunteering, the ability to prey on individuals' good nature and a lack of sophistication of controls, to name but a few.

Why a moral compass is so important?
The 'Fraud Triangle' framework is commonly used to explain the reason behind an individual's decision to commit fraud. The three main components are:

1. **Opportunity:** In essence, is there an opportunity to commit fraud; weak internal controls, lack of commitment to encouraging ethical behaviour or weak accounting measures?
2. **Rationalisation:** This is the validation for committing fraud; for example, employees believing they have been treated badly, they are entitled to more than they earn, or they think others are involved in fraudulent activities.
3. **Pressure:** Pressure placed on people, not just fraudsters, can cause them to stray from what they consider normal logical choices. This may be personal pressures (such as the need for money, addiction, gambling, or mounting bills) or pressures placed on by an organisation (such as targets or financial incentives).

Fundamentally, the three corners of the Fraud Triangle have one thing in common, a person's moral compass, i.e., a person's ability to judge what is right or wrong and act accordingly.

Fraud, as we all know, is inherently wrong. The three components of the Fraud Triangle can bend, twist, and manipulate an individual's moral compass whereby judgement on what is right or wrong can become skewed.

How can fraud be better managed?
The complexity and ever-changing nature of fraud makes it difficult to manage using a 'one-size fits all' approach. Instead, these strategies need to be fluid and adaptable, and continuously managed and monitored.

The core of this 'better management' is:
1. Prevention: A proactive solution and strategy to prevent future fraud.

Prevention is key as it can help limit any impacts of fraud or negate it entirely. It is crucial to understand the organisation and where risks may lie.

Once those risk areas are identified, put policies and procedures in place to mitigate risks.

However, organisations must be flexible. Risk areas need to be revisited and the effectiveness of those mitigators need to be assessed.

Prevention is a prime example of how spending time, effort and money upfront can save these same resources ten-fold in the future. Indeed, Benjamin Franklin said "an ounce of prevention is worth a pound of cure". This really sums up the importance of a prevention method being adopted in fraud management.

2. Detection: A device to identify fraud before it's too late and limit its impact and growth.

The single most important asset to an organisation is its employees. Having employees who are aware of fraud risks, know what to do if they encounter it and what actions to then take is unbelievably important.

Training staff to improve their awareness of fraud can exponentially limit the impacts of it. The importance of this training should not be underestimated or ignored.

Having sufficient policies in place and protection after any suspicions of fraud are reported, such as whistleblowing policies, not only provides a plan of action to limit fraud before it's too late, but also offers that much needed comfort and reassurance to employees.

Employees being able to spot anomalies, suspicious activity or things that simply don't 'appear right' are an invaluable asset to any organisation.

3. Investigation: A reactionary investigation strategy after fraud has occurred.

A reactive investigation has many implications that can amplify the impact of fraud on an organisation. Costs are involved in performing the investigation on top of any already suffered losses directly due to fraud.

Additionally, management time and focus are forced to deviate from the normal running of an organisation to effectively tackle the time sensitive issue at hand.

Appointing specialists is a sure-fire way to reduce costs involved in an investigation by applying their expertise and ensuring a focused and effective investigation, pivotal to ensure a proportionate and cost-effective approach.

Failure to do so can often result in spiralling costs with an unstructured and unjustified approach, culminating in a lack of results.

Also, do not forget there are specific fraud insurance policies that can be taken out which help in recovering losses and the cost of investigations.

4. Remediation: During or following an investigation or incident of fraud, preventing the issue from happening again.

In a full circle, similar to prevention, the best form of defence against fraud is a proactive approach.

Following an investigation, areas of risk are identified (as a result of them being abused), and procedures and processes need to be put in place to ensure the risk of fraud occurring again is reduced.

In summary

Fraud is a very true and unforgiving risk to organisations. Many factors have the ability to skew a person's moral compass, and this should not be underestimated.

Only by considering better management of fraud, and using the four core strategies above, will a company be best equipped to counter this threat.

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Induction of Trustees

A vital part of an organisation

People become trustees of charities for many different reasons: they may be passionate about a particular cause, looking to use their professional skills or considering their own development and have a wish to volunteer. For the charity, trustees are a vital part of an organisation, ensuring the vision and strategy of the charity are clearly defined and articulated in all its activities.

Trustees also safeguard the charity's assets and funds and support the work of the staff to whom they delegate the day to day running of the charity. So, if a trustee is to be effective, it is vital that they should get to know and then understand their charity, which is why the induction process is so important for all new trustees.

Key elements of the induction process

1. Understanding your legal duties

'The Essential Trustee' (guidance document, CC3, from the Charity Commission) explains the key duties of all trustees of charities in England and Wales, with similar guidance being available from OSCR for trustees of Scottish charities. The full document, CC3 can be found via the following link:
https://www.gov.uk/government/publications/the-essential-trustee-what-you-need-to-know-cc3

The main duties of a trustee as stated in The Essential Trustee are to:

1. **Ensure** your charity is carrying out its purposes for the public benefit.
2. **Comply** with your charity's governing document and the law.
3. **Act** in your charity's best interests.
4. **Manage** your charity's resources responsibly.
5. **Act** with reasonable care and skill.
6. **Ensure** your charity is accountable.

2. Read and understand your charity's governing document

Every trustee must receive a copy of the charity's governing document and understand what their charity can legally do, its purpose and its structure, considering:

- Is it a charitable company or charitable incorporated organisation (CIO), or an unincorporated trust, for example? And, what do these different structures mean?
- Who are the charity's members?

3. What is the charity for?

Surprisingly perhaps, but this can be a difficult question for some trustees to answer and it is at the heart of knowing and understanding your charity. As part of a good induction trustees should understand:

- The charity's mission statement.
- Its aims and purpose.
- How its programmes and activities achieve that purpose.
- Who are its beneficiaries and other stakeholders.

4. How does the charity work?

This is about helping the new trustee to understand how the charity operates day to day. It might include:

- Meeting with the other trustees of the charity.
- Understanding how trustee meetings work, by attending as an observer.
- Reviewing the workings of the main Board and any sub-committees, reading minutes of past meetings.
- Being familiar with board policies, for example, risk management.
- Receiving a copy of the organisation's structure.
- Meeting with the senior staff team and understanding their roles and their level of delegated authority for decision-making.
- Attending the charity's events and meeting with beneficiaries.

5. Find out about the financial structure

The induction should include information about how the charity runs, its finances and how it manages its assets and funds. New trustees should understand:

- What cash, investments, and property the charity has.
- Details of any subsidiaries or connected organisations.
- Bank accounts and payment authorisation process.
- IT systems that the charity uses.
- Sources of income and funding.
- The budgeting cycle and how budgets are approved and monitored.

The induction process should include providing new trustees with copies of the latest annual statutory accounts and trustees' annual report, management accounts and budgets.

Depending upon their financial knowledge, these may need to be explained such that there is an understanding of what information they provide and how to interpret that information.

Reserves:

- Understand the charity's reserves policy.
- What level of reserves does the charity hold and why?
- What is the mix of reserves: Unrestricted, Restricted, Endowed.
- What are the purposes of the different reserves?

In summary

This article is intended as a suggested route for induction and all charities vary in their size, type and resources and will have different needs. A formalised induction process should be put in place though for all charities, so that new trustees can understand the organisation and their responsibilities. In that way they will be better placed to make a positive contribution to the charity and its beneficiaries.

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Top ten behaviours to create a truly informed and engaged trustee

Trustees are a crucial cog in the success of a charity, however, sometimes it is all too easy for trustees to take a back seat and allow others to drive meetings and decisions. In our journey back to better, it will be essential that all trustees are active in the process and engage with strategy and planning.

There are clear legal responsibilities that trustees are required to understand and adhere to, but the difference between satisfying these responsibilities and being an informed and engaged trustee can be the key to an organisation's success.

Here are our top ten qualities and behaviours that we feel help to create a truly informed and engaged trustee:

1. **Be selfless and free from conflict** – always make decisions in the best interests of the charity, ensure you do not put yourself in a position where an outside relationship might influence a decision.
2. **Create an open and transparent environment** – be open to scrutiny, share information, demonstrate the thought process, allow everyone a voice.
3. **Be present and informed** – attend meetings, pay attention, pre-read, research and ask questions.
4. **Engage with the financial information** – understand the reports you are presented with and work with finance to shape reporting, KPI's and management information.
5. **Integrate within the organisation** – understand the dynamics, engage with the senior team, understand the culture (but be aware of the boundaries).
6. **Work with your auditors** – keep them informed, understand their role, ask questions and use them to help keep abreast of changes.
7. **Be part of the desired culture of the charity** – lead that culture from the front, clearly demonstrating desirable behaviours within meetings and interactions with the SMT.
8. **Understand the expectation** – it is important to know what level of commitment is expected of you, how involved is the right level for your charity, how much depth is needed in your subcommittee, should you be present at events or fundraising?
9. **Be curious** – delve deeper, ask questions, participate in debates, seek further information, benchmark, or compare data.
10. **Finally, be passionate** – the best trustees are passionate about their role and how their contribution can make a difference – if you get that right, the rest hopefully follows.

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Minimising the cost of irrecoverable VAT

Most charitable organisations have activities that are classified as being 'exempt' or 'non-business' for VAT purposes. As such, most are unable to recover all of the VAT they incur on expenditure. This results in irrecoverable VAT costs, and an obligation to perform regular VAT recovery calculations.

The recovery of VAT should reflect the use of the expenditure incurred. If the expenditure is wholly linked to standard rated activities, the associated VAT should be recoverable in full. Where the expenditure is wholly linked to exempt activities, the associated VAT will probably be blocked in full. The recovery of VAT incurred on expenses that are linked to a number of different activities (with differing VAT liabilities) must be restricted to take account of exempt activities.

When it comes to VAT recovery calculations, there are two options – the standard method and special methods. The standard method, the default position, is based on income. If an income-based calculation does not reflect the use of the expenditure, a special method should be considered. Before using a special method, HMRC needs to be satisfied that the special method produces a more accurate reflection of the use of expenditure, and they must formally approve its use.

Whatever method is used, override procedures can be applied when the calculation does not produce a result that reflects the use of expenditure. These procedures can be applied by the taxpayer when the recovery of VAT is too low, and by HMRC if the recovery is too high.
VAT recovery calculations must be performed and reviewed on a regular basis. The recovery must be averaged at the end of every VAT year by performing an annual adjustment. This is normally undertaken between June and August, depending on the VAT return period of an organisation.

Whilst the calculation of recoverable VAT must follow specific rules, the following points are worth noting. In some cases, they could improve the recovery of VAT, or reduce the cost of irrecoverable VAT.

1. Confirm that VAT has been charged correctly by suppliers
If the VAT incurred can be reduced or removed, the cost of irrecoverable VAT will decrease. Remember that advertising, publications,

property rental, some construction works, and certain medical goods can be obtained VAT free by charities. Similarly, fuel and power costs may be liable to 5% VAT. Remember to identify all expenditure that is wholly attributable to taxable supplies and recover the associated VAT in full.

2. Staff costs and recharges

If you use temporary agency staff, you will normally incur VAT on the associated costs. If you employ the staff, their salaries and remuneration costs will not be liable to VAT.

Similarly, recharging staff time between associated organisations is normally liable to VAT. If staff work for two or more organisations and have joint contracts of employment, the recharges should not be supplies for VAT purposes, and no VAT would be chargeable.

3. VAT grouping

Supplies between members of a VAT group are disregarded for VAT purposes. By forming a VAT group between two or more corporate entities under common control, you can reduce the amount of irrecoverable VAT incurred on intercompany transactions. As this arrangement can also affect the recovery of VAT, the overall VAT position must be considered in advance.

4. Increase the value of taxable supplies

The greater the value of taxable supplies, the greater the value of recoverable VAT.

5. Consider opting to tax commercial properties

This converts an exempt supply of property into a taxable one and allows the VAT incurred on all associated costs to be recovered. Such a change needs to be carefully considered before being implemented to ensure the longer term and wider implications are all understood.

We would recommend that all partially exempt organisations review and confirm their VAT recovery calculations, especially in light of COVID changes.

Where calculations do not accurately reflect the use of the expenditure incurred, consider alternative calculations. Wherever possible, look to minimise the VAT incurred on expenditure and maximise the value of recoverable VAT.

Contact the specialist VAT team at Azets for more information and guidance.

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Quarter two checklist

BETTER GIFT AID	YES / NO	ACTION TO BE TAKEN
Does your charity maximise on Gift Aid?		
Do you educate staff and volunteers who interact with donors, about Gift Aid?		
Do you understand the complexities of Gift Aid?		

BETTER FRAUD MANAGEMENT	YES / NO	ACTION TO BE TAKEN
Does your charity have procedures and processes in place to ensure the risk of fraud is reduced?		
Are your strategies fluid and adaptable, and continuously managed and monitored?		
Have you reviewed your insurance policy to establish if you have any cover for fraud?		

INDUCTION OF TRUSTEES	YES / NO	ACTION TO BE TAKEN
Why did you become a Trustee?		
Does your charity have an induction process?		
Does your charity provide new trustees with copies of the latest annual statutory accounts, and trustees' annual report, management accounts and budgets?		

TOP TEN BEHAVIOURS TO CREATE A TRULY INFORMED AND ENGAGED TRUSTEE	YES / NO	ACTION TO BE TAKEN
Do your trustees engage with strategy and planning?		
Do you have an open and transparent environment?		
Do you understand the dynamics, engage with the senior team and understand the culture of your charity?		

MINIMISING THE COST OF IRRECOVERABLE VAT	YES / NO	ACTION TO BE TAKEN
Did you know that there are two options for VAT recovery calculations?		
Does your charity perform and review VAT recovery calculations on a regular basis?		
Does your charity remember to identify all expenditure that is wholly attributable to taxable supplies and recover the associated VAT in full?		

About us

Azets is a Europe-wide group with more than 150 offices across seven countries.

80+ of these offices are based in the UK, giving us a truly national offering of Accounting and Business support along with other services we offer.

80+ offices

120,000 customers

6,500 employees

The charity sector is a diverse and challenging environment which faces numerous pressures from raising funds, diversifying income streams, managing finances and investment portfolios, through to meeting stakeholder demands and keeping up-to-date with ever-changing regulation.

Our specialist charities team have many years' experience in providing high quality compliance, governance, taxation and advisory services to a wide range of charities and not- for-profit operations. Our service is provided on a bespoke basis designed around the organisations unique requirements.

Many of our Partners and staff are actively involved within local charities in various roles from trustees or committee members to active fundraisers.

If you are looking for advice our team would welcome the opportunity to meet with you and discuss your individual requirements before offering a service package to meet your needs.

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