

How to ensure your board is financially competent

Not For Profit Sector: How To Guide



Whilst the premise of this Guide - that more charities should have a formal process to ensure their trustee board has high financial competency - might seem obvious, it is reasonable to first confirm this need.

In a survey undertaken by the Charity Finance Group and MHA in 2018 this was a clear result. 85% of charities considered it would be beneficial for their trustees to have a better understanding of strategic financial governance matters.

“Our findings suggest that there might be something of a gap between a trustee’s perception, and actual knowledge of, their legal duties.”

Now, for tomorrow

In addition, 92% considered it was important to have more than one person on the trustee board to be engaged with the charity's finances.

Academic research undertaken by NCVO, Cranfield Trust and others supports these findings. In November 2017 the results were published of this major research study entitled, Taken on Trust. The detailed research was undertaken with the encouragement of the Charity Commission.

The report notes "Our findings suggest that there might be something of a gap between a trustee's perception of and actual knowledge of their legal duties". A key recommendation was "that more work be done to encourage trustee boards to actively embrace the introduction of different people, new ideas, skills and experience to trustee boards...".

Key attributes

For a board to be highly financially competent an appropriate goal is engagement on financial matters universally across all trustees.

This can be broken down as:



Engagement

Addressing financial issues appropriately and effectively – securing commitment and avoiding complacency



Universality

All trustees have joint and several responsibilities – no-one can abdicate their responsibility – that involvement needs to be wholeheartedly and conscientiously demonstrated by establishing skills and instilling competency.

Diagnosing the cause

If high standards of board competency in finance does not exist, it is worth seeking to determine why. Similarly, universality can be affected by many issues: **knowledge, ability, experience, fear, resourcing, induction, training.**



Understanding of personal and group role



Sufficient involvement



Personal and corporate attitudes



Motivation



Governance leadership



Governance structures

A plethora of barriers may exist, but to aid these to be addressed we have categorised Engagement barriers as being Commitment and Complacency, and barriers to Universality as being Skills and Competency.

Set out below are observations regarding each of these four areas together with actions that can be taken to overcome these barriers.

| Outcome | Barriers | Enablers |
|--------------|-------------|--|
| Engagement | Commitment | Role descriptors Trustee contracts Trustee and governance appraisal |
| | Complacency | Effective chairing Regular performance review – including external Governance codes and sector tools Comprehensive induction |
| Universality | Skills | Skills audit Informed trustee recruitment and induction Trustee training budgets Continuing trustee development Management support |
| | Competency | Competency assessment Personal reflection Competency framework Organisational culture |

Securing commitment

It is important that we are honest in admitting that being an effective trustee requires a significant commitment if the role is done well.

If trustees fail to devote sufficient time and effort, what can be done to encourage greater commitment?

Whilst the clear majority of trustees are plainly not wilfully negligent, there seems to be a widespread acceptance of mediocracy, or at least a deficit in outstanding performance. Greater realism is needed to recognise that being an effective trustee in most charities is a highly onerous responsibility.

In the absence of high levels of commitment here are two ideas:



Establish a trustee contract

Few would ever employ a member of staff (or these days use a volunteer) without a written contract setting out mutual expectations.

Often a trustees' approach to their role is almost entirely self-determined. Whilst the role may be defined (although sometimes not adequately), how to fulfil it is often unclear.

A trustee contract does not need to be too formal or extensive but could set out key points such as time commitments, expectations for initial induction, acceptance to undertake training and continued trustee development, agreement to attend events, and level of preparation for meetings.



Carry out appraisals of performance

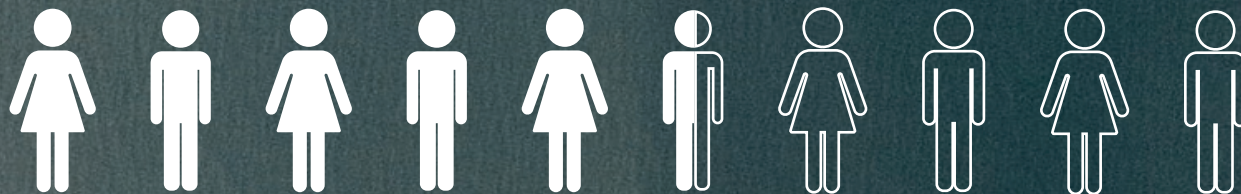
Trustee appraisal is often encouraged but seldom adopted. It would be helpful to have more use and wider scope of such formal performance evaluations.

These should include individual trustees, committees and the Board as a whole.

There is plenty of guidance on this subject, and whatever is done it is important that the appraisal includes quantitative measures such as meetings attended, as well as qualitative assessments, tailored for the charity. For example considering time spent on specific activities, including the preparation for meetings, and the quality of decisions made by trustees.

Instilling competency

In our survey **57%** of charities had trustees who understood financial governance at least “well”, hence there was clear room for improvement.



In the Charity Governance Code the starting point is the Foundation Principle – the trustee role and charity context, being trustee understanding and commitment to their role and responsibilities in the situation of their particular charity and what it does.

So, this suggests this is not just an issue about skills, but about how they are used – in other words about – the successful application of skills.

What makes someone competent?

1

Having relevant skills

Tailored to the specific financial circumstances of the charity.

2

Understanding how to apply their skills

The financial management of charities can be radically different to that of a commercial organisation, and the same approach may well be harmful.

3

Recognising when appropriate knowledge is held

Being an expert in your chosen field may indicate a great ability and potential to be an outstanding trustee, but the charity sector has many unique aspects to its regulatory and operational frameworks which require a sector-specific approach.

So, how do trustees ensure they are competent?

One possible solution is to use a competency framework. In its simplest form this is just a list of both necessary areas and desirable areas of competence. This can then be used by the individual trustees in personal reflection to identify gaps in skills and knowledge to be considered competent.

Also, in a culture of honest feedback, appraisal of the competency of individual trustees can identify where action may be needed. It should be the responsibility of the chair to establish and maintain such an organisational culture.

Conclusion

Trustees have a legal duty to always consider the best interests of their beneficiaries.

It is a given that strong and effective engagement by trustees in finance makes a tangible difference to the impact that a charity can have on its beneficiaries, hence striving for outstanding performance must be essential. There is an increased recognition that it is not only systems and process that are important, but the softer areas of attitudes and behaviours. There is no silver bullet to achieve this, but awareness of these issues and seeking to do at least something, will result in significant benefits.

In the Charity Commission's response to the Taken on Trust research, they stated "The NCVO/Cranfield Trust report on support available to trustees, published alongside the main research, demonstrates that a wide range of rich support is available to trustees.

Taken together, the two reports indicate a gap between the support available and the uptake". We hope this Guide will encourage actions that will reduce that gap.

If you would like to discuss any matter arising from this please contact Sudhir Singh, Partner and Head of Not for Profit (sudhir.singh@mhlhp.co.uk) or your usual MHA MacIntyre Hudson contact.

This article is designed for information purposes only. Whilst every effort has been made to provide accurate and up to date information, it is recommended that you consult us before taking or refraining from taking action based on matters discussed.

How we can help

Review your charity's procedures about how conflicts of interest must be handled (create one if it doesn't already exist) and consult your charity's governing document. If you would like any assistance with developing your conflict of interest procedures, please don't hesitate to get in touch with your local MHA member firm.

Please do not hesitate to contact us if you would like help on any aspect on Conflicts of interest.



Sudhir Singh
Partner

E: sudhir.singh@mha.co.uk



Stuart McKay
Partner

E: stuart.mckay@mha.co.uk



Nicola Mason
Partner

E: nicola.mason@mha.co.uk