



NOT FOR PROFIT SECTOR: HOW TO GUIDE

# How to ensure your board is financially competent





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## What's the concern?

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 ”

## 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.



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.

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	<ul style="list-style-type: none"> <li>• Role descriptors</li> <li>• Trustee contracts</li> <li>• Trustee and governance appraisal.</li> </ul>
	Complacency	<ul style="list-style-type: none"> <li>• Effective chairing</li> <li>• Regular performance review – including external</li> <li>• Governance codes and sector tools</li> <li>• Comprehensive induction.</li> </ul>
Universality	Skills	<ul style="list-style-type: none"> <li>• Skills audit</li> <li>• Informed trustee recruitment and induction</li> <li>• Trustee training budgets</li> <li>• Continuing trustee development</li> <li>• Management support.</li> </ul>
	Competency	<ul style="list-style-type: none"> <li>• Competency assessment</li> <li>• Personal reflection</li> <li>• Competency framework</li> <li>• Organisational culture.</li> </ul>



## 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 mediocrity, 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.

## Avoiding complacency

The Charity Commission have toiled long and hard to reiterate the essential requirement of trustees to engage on financial governance matters.

Indeed 12 of the excellent "15 Questions that trustees should ask" concern financial matters.

Yet surveys and the evidence of Charity Commission regulatory interventions show scant regard of this good practice, even amongst well-resourced charities.

Are there trustees that can't be bothered to discuss finance? Is active complacency rife in the sector? Whilst this is possible, clearly most trustees want to do a good job.

Therefore, is there subconscious complacency? It may be the case that trustees just don't recognise their failings.

### Why might this be?

Could there be an unwillingness to accept failings? Perhaps trustees don't know what good looks like? A lack of awareness would be quite understandable – after all few trustees have comprehensive training for their role, and trustee qualifications are essentially non-existent.

What could shake up this virtue-less circle? Certainly, performance assessment by self-reviews may help, as noted above. However, self-review has its limitations – it can be affected by individuals' perspective, experience and knowledge. The "don't know what you don't know" conundrum.

**If self-review may not be sufficient, charities may need something more robust to stir things up. Some options include:**

- 1** More formal trustee induction and training. Having recruited good new trustees, charities often don't devote sufficient resources to "on-board" them. So, make it a virtue not an obligation
- 2** Use of an external viewpoint on a periodic basis is helpful to provide an independent challenge. Do though ensure you use a suitable peer/ professional adviser/ or consultant. The Charity Governance Code recommends annual reviews, and that these should be undertaken externally every 3 years
- 3** An effective board chair or finance committee chair, that leads a formal review of performance and challenges effectiveness. The 2017 Good Governance Code may be a useful performance standard, and compliance checklists based on this are readily available
- 4** The Charity Governance Code adopts an "apply of explain" approach, similar to other governance codes. Reporting in the trustees' annual report where the code has or has not been adopted provides both transparency and accountability, and certainly provides a strong encouragement for charities to adopt and communicate their good practice.



## Establishing skills

### Whilst often cited, is lack of skills a serious concern?

It is fair to recognise that many charities do struggle to recruit trustees with appropriate finance skills. However, the whole board does not need higher level finance skills.

Equal responsibility does not mean all need equal levels of skills and competencies, and certainly, all charities need some minimum level of skill.



## Instilling competency

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



### What should you do next?



#### Recruit

It is possible that for some charities the existing skills base is just too low, and the only solution is recruitment. A thorough skills audit or assessment should be undertaken regularly to inform recruitment, beware using a standard template, as skills should be tailored to the specific needs of the charity.

There is plenty of external sector guidance to help with trustee recruitment. For example, Charity Commission guidance CC30 – Finding New Trustees: What Charities need to know. This will enable most charities to establish and use policies and processes on the recruitment, selection, and induction of trustees.

And organisations such as the ICAEW have aided the potential pool of trustees through encouraging the involvement of their members.



#### Train

Sufficient finance skills can be developed and refreshed amongst all individual trustees in almost all cases through training and development, as long as there is sufficient personal commitment. It is essential to recognise that there are some aspects of charity finance that are unique, and also that highly specialised skills are needed for adequate understanding of certain activities of some charities. So all trustees, even highly experienced professionals, will need some personal development.

All charities should consider establishing a realistic budget for trustee training every year, and then ensure it is used effectively. Cost should not be a barrier as sector organisations such as the CFG and professional firms are very willing to provide free or low-cost training seminars, or experienced peers can be a value support. Management can assist through guidance, instruction, clear trustee papers, and personal engagement – much can be informal and "on the job".

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@mhllp.co.uk](mailto:sudhir.singh@mhllp.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.



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