



Not for Profit eNews

October 2021

Now, for tomorrow





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**Welcome to the latest
edition of MHA Not for
Profit eNews.**

In this issue, we look at the importance of safeguarding against fraud and cybercrime as the Charity Commission gets ready for the Charity Fraud Awareness Week. We provide an update for trustees of managing faith-based charities, and explore the importance of oversight over financial controls, and enhanced risks of the cancellation of government funding without warning.

We will also look at the possible overhaul of privacy rules regarding data and the low pay levels of non-profit workers.

Best Regards,

MHA Not for Profit team



SPOTLIGHT ON

**Webinar | Charity
Financial Reporting**
9 November @ 10am

Register now

Charity Fraud Awareness Week 2021

Charity Fraud Awareness Week is taking place on 18-22 October 2021 and is run by a partnership of charities, regulators, law enforcers, representative and umbrella bodies, and other not-for-profit stakeholders from across the world.

As noted above, all charities, NGOs and not-for-profits are susceptible to fraud and can be targeted. The goal of the week is to raise awareness and create a safe space for conversation between charities and supporters. Charities are more than ever at risk of national and global crises of fraud and cybercrime. They must be proactive to ensure that they protect their money, people and assets from falling victim to these crimes.

The week is for all individuals who want to protect the sector and the work it does, including:

- Trustees, directors, board members, staff and volunteers
- Organisations representing the sector
- Professional advisors (accountants, auditors, solicitors etc.)
- Regulators, law enforcers, and policy makers.



SPOTLIGHT ON

Fraud in an audit environment - the ultimate "Expectation Gap"

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Cybercrime alert from HMRC's Head of Cyber Security Operations

Fraud consists of 40% of all crime, with an increasing proportion being committed via online platforms.

This has been accelerated during the pandemic, with tax-related scams doubling in the last year according to Mike Fell, HMRC's Head of Cyber Security Operations.

This is particularly prevalent in charities, with an estimated 1 in 25 charities believed to fall victim over the two-year period between 2019 and 2021. As a result, HMRC encourages the voluntary sector to report HMRC-branded scams directly to HMRC.

There are many platforms available that offer advice on how charities can better protect themselves against fraud and cybercrime, including the Charity Commissions [eight](#) guiding principles, and the National Cyber Security Centre's cyber security [Board Toolkit](#) which sets out to encourage communication between the board and staff surrounding cyber security.

In addition, the Head of the Fraud Advisory Panel, Mia Campbell, will be hosting a webinar titled 'Managing the risk of fraud and financial crime – an overview of charities' on 18 October as part of the "Charity Fraud Awareness Week". This will be available to members of the Charity Finance Professionals Community.

For more information or to request a supporters pack, please contact Mia Campbell at the Fraud Advisory Panel on mia.campbell@fraudadvisorypanel.org or visit www.preventcharityfraud.org.uk

UK to overhaul privacy rules in post-Brexit departure from GDPR

In May 2018 the EU introduced rules surrounding GDPR data protection which will constitute part of UK law even after Brexit.

The current rules place strict restrictions on the use of personal data, with a significant increase in cookie popups and requests online, but with many arguing there is still a lack of safeguards over the protection of the personal data of individuals.

The government hopes to overhaul this by focusing on "innovative and responsible uses of data", which will

improve public services and allow for free and easy transfer of information across international borders through adequacy agreements on future data regulation.

The UK government still emphasises the importance of GDPR as a framework but is hoping to expand practices to represent international data flows, rather than a stringent EU led approach.

Update on managing faith charities as trustees

The Charity Commission has updated their guidance on 'Faith in good governance', with the objective of making it easier to find and understand the information provided.

The advice provided includes how to check if you should register with the Charity Commission, as well as the areas listed below:

- Legal structures of charities; reviewing the 4 main types of structure and the various legal duties that may coincide with your structure
- Trustees of Faith Charities; including who they are and their legal duties as trustees
- Appointing faith charity trustees; looking at the requirements per the charity's governing document and ensuring the right people are being appointed
- Religious or spiritual leaders as trustees; required by the governing document, and the importance of shared responsibility amongst all trustees
- Conflicts of interest; this includes a 5-minute guide on 'Managing conflicts of interest in a charity'
- Paying trustees who are also charity employees; explaining the circumstances that permit this
- Paying trustees for services; information about when and how trustees can be paid for services
- Reporting serious incidents; how and when to report serious incidents to the Charity Commission
- Safeguarding; including the importance of governance and how to address/respond to the risks imposed
- Managing charity finances; advice on internal financial controls, cash collections, reconciling bank statements, electronic bank statements, international payments and protecting against fraud
- Annual returns and accounts; the annual return limits, as well as keeping and preparing accounts
- Inviting external speakers; the risks of controversial speakers and the considerations that should be made
- Some other legal requirements common to faith charities; including employing people, health and safety, visas for workers, and UK GDPR.



Guidance on 'Managing faith charities as trustees' can be found [here](#)

Importance of oversight over financial controls

The Charity Commission recently disqualified a chair of a board of trustees from acting for a period of 15 years, with one other trustee disqualified for 10 years.

The charity has now been closed, removed from the register, and its remaining funds were distributed to 10 different charities of similar purpose.

This reaction was a result of serious failures in the charity's management, including the arrangements with a fundraising agency where £10.6m was donated between 2008 and 2020 but only £1.8m was received by the charity, noted to be a result of "high costs and fees of the agreement".

The inquiry into the failures found that this was a result of "a complete lack of basic financial controls", and oversight by the other trustees.

The Chair had complete autonomy over the charity's bank account, there was no separation between the personal finances of the chair and those of the charity, and there was use of personal credit cards amounting to £360k which was later repaid to the Chair once funds were available. This was explained as being due to long-standing cash flow issues at the charity, but the Commission found this to be a clear abuse of position and conduct.

The legal accounting responsibilities of trustees are set out to assist the trustees in their role and ensure that failures as noted above are unlikely or identified early enough that the impact is minimal.



Information on trustees can be found on the Charity Commission website [here](#)



SPOTLIGHT ON

Webinar | Good Governance in Charities

Watch on demand



Low pay of charity and non-profit workers

The Living Wage Foundation has published a report that details that approximately 17% of all third sector workers earn less than the real Living Wage and it is these individuals that were mostly likely to be furloughed throughout the pandemic.

The Foundation has now urged the sector to attract new people to the sector by considering increasing wages to at least the current real living wage.

The pandemic has only enhanced the importance of third sector in society, including safeguarding financially vulnerable households from extreme hardships. These services will continue to operate long after the pandemic, but this work is still largely being carried out by those underpaid. It is key that these individuals are also safeguarded from falling into poverty as a result of low pay. The Living Wage Foundation will be releasing a large report in early 2022 which will give greater detail on how low pay impacts the sector.

Cancelling of funding agreements without notice

It was documented at the beginning of the year that government aid spending would be reduced in 2021 by approximately £2bn according to the Foreign, Commonwealth and Development Office (FCDO).

This led the Small International Development Charities Network to address ministers and insist that they “honour the provisional agreements made with small charities”.

However, it was reported recently that an Aid Charity had a funding agreement cancelled without notice by the FCDO which has led them to mistrust the government and question working with them again in the future. This impacted an international project which had already been agreed, breaching their trust, and impacting the key values of this relationship.

The risk of cuts and the possibility of voiding of funding agreements with little to no warning is something that should be considered by charities.

Experts have warned that this could have an “enormous and damaging” impact on work, particularly in the case of small international development charities that work in some of the poorest parts of the world.

Health and social care levy

In September the Chancellor announced an increase of 1.25% to both the main and additional rates of Class1, Class 1A, Class1B and Class 4 National Insurance contributions (NICs) for the 2022/23 tax year.

After that date the rates of NIC will reduce back to their 2021/22 levels, but a new "Health and Social Care Levy" of 1.25% will be introduced instead.

The revenue raised from this measure will go directly to support the NHS and equivalent bodies across the UK.

The table adjacent shows the current NIC rates compared to the revised rates:

	Current rate	Temporary rate
EE NIC on earnings between £9,568 and £50,270	12.00%	13.25%
EE NIC on earnings over £50,270	2.00%	3.25%
ER NIC on earnings over £8,840	13.80%	15.05%

Clearly the introduction of the Health and Social Care Levy will increase payroll costs for charities and the not for profit sector. The table below sets out some example salaries and the impact on both take home pay and cost to the employer:

Example salary	15,000	25,000	35,000	45,000	55,000	65,000
Current take home pay	13,862	20,662	27,462	34,262	35,561	41,361
Revised take home pay	13,794	20,469	27,144	33,819	34,993	40,668
Reduction in take home pay	68	193	318	443	568	693
Current ER cost	15,850	27,230	38,610	49,990	61,370	72,750
Revised ER cost	15,927	27,432	38,937	50,442	61,947	73,452
Increase in cost	77	202	327	452	577	702

Following the announcement there have been no further technical details released by the government.

If you would like to discuss this further please don't hesitate to [contact us](#).

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