Charities & Non-profit newsletter.

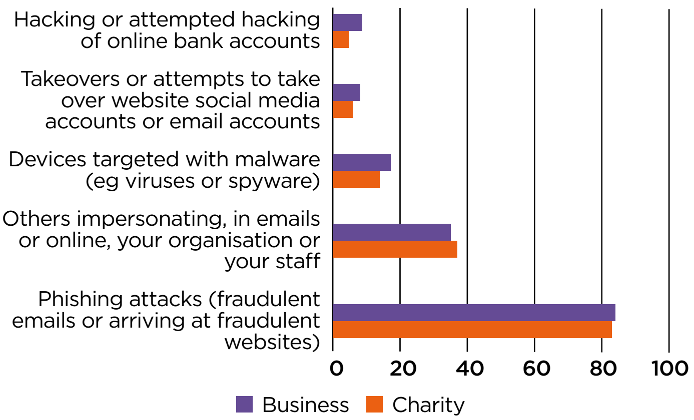
June 2024

Contents.

Cyber security breaches survey 2024.

On 9 April 2024, The Department for Science, Innovation and Technology and the Home Office published their latest annual survey on UK cyber resilience, the Cyber Security Breaches Survey. This year a supplement relating to education was also released.

Top 5 types of attack



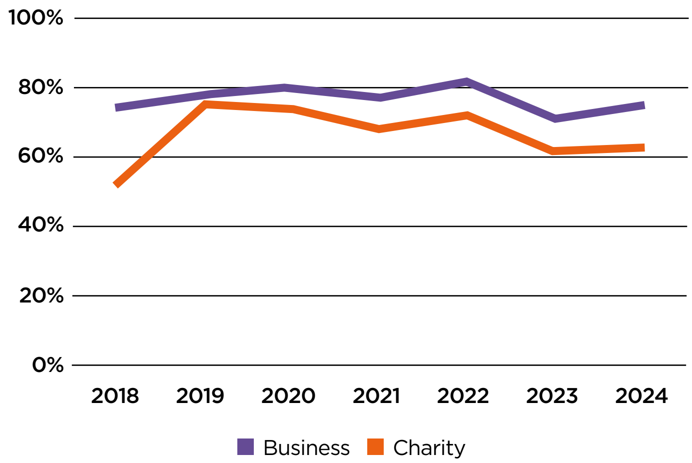
The survey was based on data collected in the winter 2023/24 and some of the highlights are that half of business and around a third of charities surveyed reported having experienced some form of cyber breach or attack in the last 12 months.

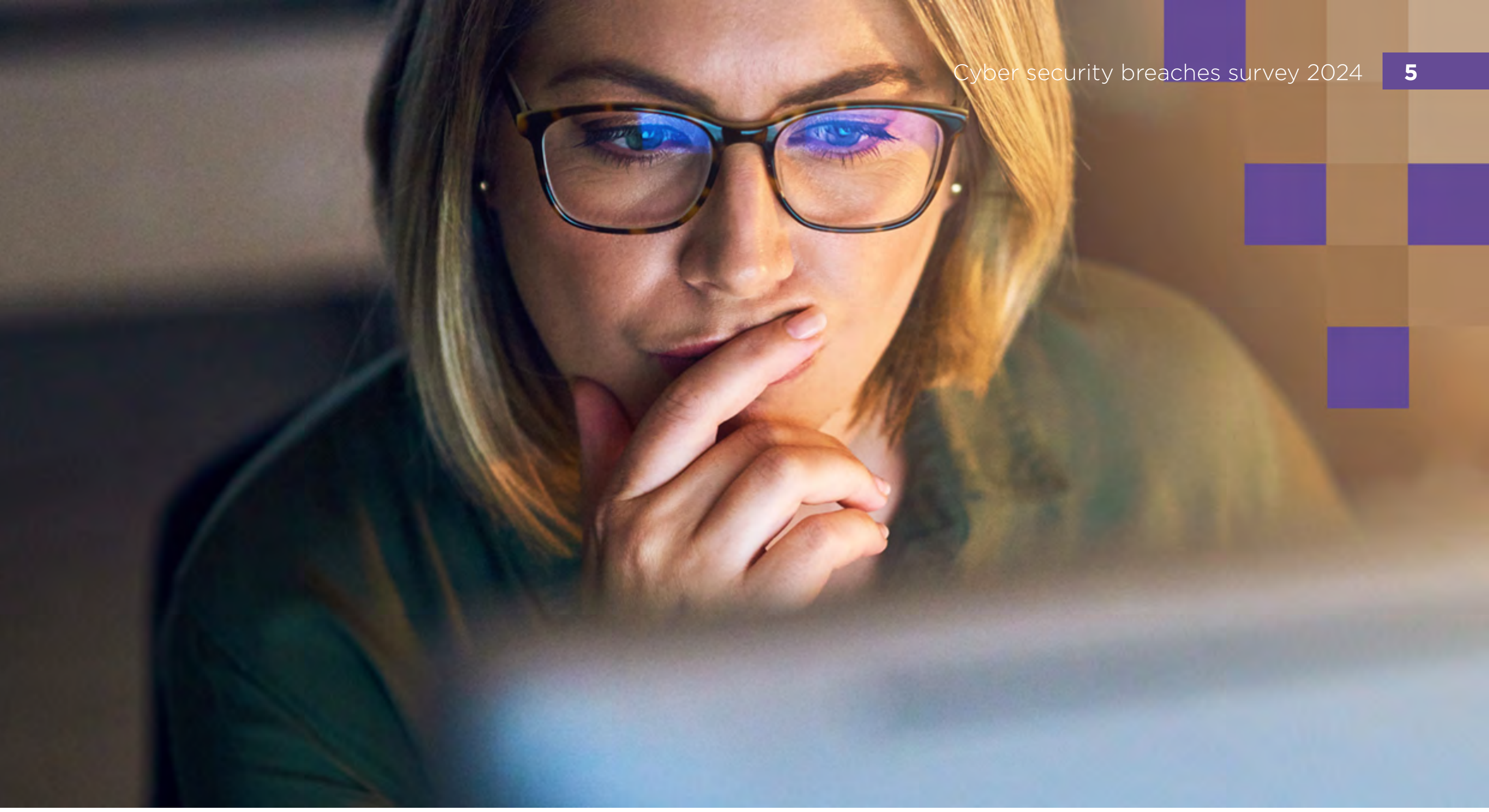
For large and medium business and high income charities (charities with £500,000 or more in annual income), the figures rose to 74%, 70% and 66%, meaning that charities with relatively low levels of income are suffering the same number of attacks as businesses with over 20 times the level of income.

The most common type of breach is phishing, with impersonation of organisation or staff significantly lower. Organisations did report that the vast majority of breaches could be managed within 24 hours and costs of charity breaches were estimated at £460 per charity (compared to just over £10,000 for large businesses).

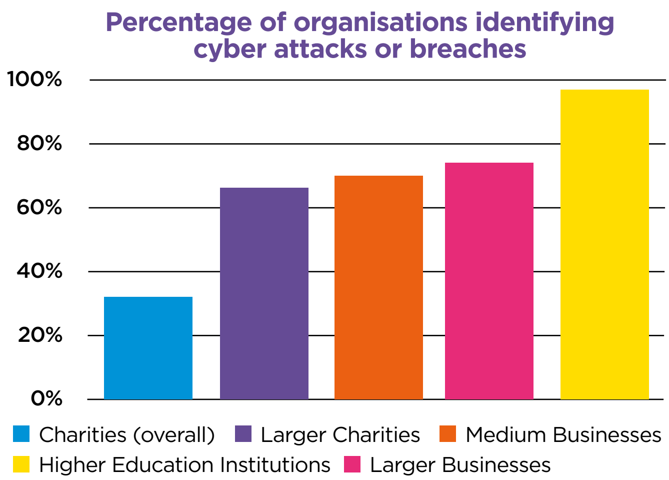
Cyber security remains a high priority for director trustees and managers, although this has fallen from a peak in the 2022 survey. Although worryingly the survey has identified a pattern of declining awareness of government initiatives and schemes over the last two to three years, and fewer charities are aware of schemes such as cyber essentials compared to the previous year. Charities surveyed typically saw cyber security as less of a priority than businesses.

Percentage of organisations seeing cyber security as a high priority



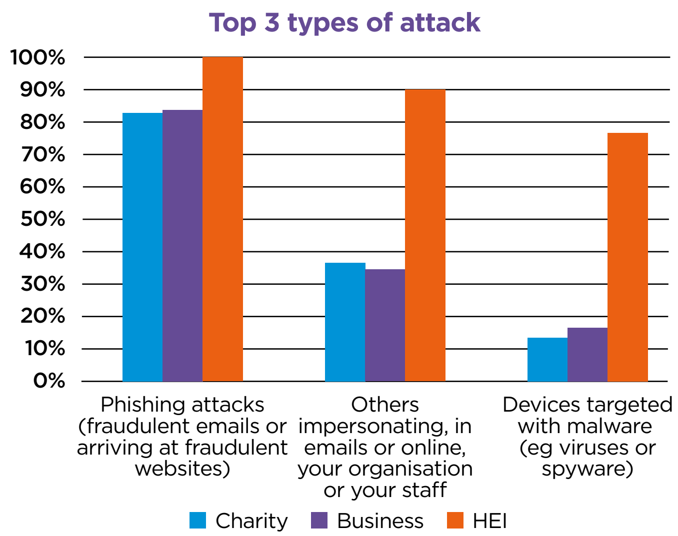


The education supplement highlights show that higher education institutions (HEIs) are either much better at detecting attacks or come under more attacks than other organisations, with 43% of HEIs reported experiencing a breach or attack at least weekly.



Significantly higher percentages of HEIs reported suffering the top three types of attack, with 40% also reporting denial of service attacks, 27% unauthorised accessing of files by staff, 20% unauthorised access by outsiders, again much higher incidences than for business and larger charities generally.

Most education institutions surveyed showed a higher level of board engagement with cyber security than the average UK business and more preparedness, including having a cyber security policy.



Whilst all HEIs surveyed said cyber security was a high priority, the survey found that the National Cyber Security Centre's (NCSC's) Board Toolkit was much more widely recognised in HEIs in 2023 (82%) and dropped to 65% for 2024. Although charities appear to be less likely to suffer an attack than other types of organisation, there may also be less sophistication in identifying attacks and under-reporting and the results of the 2024 survey suggests that it is commonplace for organisations to suffer attacks. We would recommend that trustees and management ensure that they understand their data; regularly test their defenses, document their response plan for a major cyber incident, including their media response and consider their current cyber security arrangements. The Cyber Essentials steps provide a useful checklist for those charities wishing to assess their cyber security position.

What is Carbon Accounting and why should your charity care?

Carbon accounting is the measurement of a company's Greenhouse Gas (GHG) emissions – that is, the greenhouse gases that are emitted by the company from its activities and operations.

For organisations quantifying their emissions for the first time, you'll be performing a 'baseline emissions assessment'. This involves identifying and quantifying all of the sources of emissions within an organisation's operations, including direct emissions from activities like burning fossil fuels (like driving a car), as well as indirect emissions associated with the consumption of electricity, freight of materials, or from the purchase of goods and services you buy (from suppliers within your value chain).

Standards

The GHG Protocol supplies the world's most widely used Greenhouse Gas accounting standards. Nearly every other framework (think of the endless acronyms you've heard) is underpinned by the GHG Protocol for the carbon accounting part. These standards set out the things you need to include and the methods you can follow (and yes, they cover methods where you don't have perfect data because in reality, nobody does).

The standards really are accounting standards more than environmental science. But let's take a minute to go a little deeper for context. What are greenhouse gases or GHGs? They are gases present in our atmosphere that absorb and emit energy within the thermal infrared wavelength of light (IPCC, 2018) (wavelengths slightly longer than the visible spectrum we see in).

These gases essentially trap some of the incoming solar radiation, warming our planet. Basically, greenhouse gases are responsible for the rising temperatures that are leading to climate change and its catastrophic consequences. The primary greenhouse gases that drive the greenhouse effect are water vapour (H2O) (in the form of clouds etc.), carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O) and ozone (O_3).

Applying this to carbon accounting

When it comes to carbon accounting, you're calculating the quantity of those gases generated from the businesses activities, and the output is usually expressed as kg of CO_2-e.

What does CO2-e mean?

Each one of those gases has a global warming potential ('GWP' for short). When you multiply any of those gases by its GWP – you get CO_2-e. Essentially, the idea is that you are expressing the impact of each greenhouse gas in terms of the amount of carbon dioxide or CO_2 that would be required to create the same amount of warming. It simplifies things and provides a common unit. Don't worry, you don't have to know what activity creates exactly what gas and what the equivalent amount of carbon is based on your own knowledge and research.

How do you know what to account for?

Under the GHG Protocol, emissions are split up into 'scopes' (categories of emissions essentially). There are three scopes used in GHG accounting, which differentiate between direct and indirect emissions:

- Scope 1 emissions: Direct GHG emissions from sources that are owned or controlled by the company, such as burning fuels from cars, trucks, gas stoves, boilers, and BBQs.
- Scope 2 emissions: Electricity, indirect GHG emissions from purchased electricity consumed by the company (like what's on your power bill). Scope 2 emissions are generally straightforward, it's the emissions associated with the electricity, steam, heat or cooling a business buys from a utility or retailer. Scope 2 represents one of the largest sources of GHG emissions globally, with generation of electricity and heat now accounting for at least a third of global GHG emissions (hence the push towards renewable energy). These emissions are categorised as indirect, as they are technically emitted from sources owned by other entities i.e. the electricity provider, rather than a business generating the electricity themselves.
- Scope 3 emissions: Other indirect emissions which are a consequence of the activities of the company but occur from sources not owned or controlled by the company (like all the suppliers the business buys goods and services from). From its brief description, this category probably makes the least sense... Scope 3 emissions are essentially every other emission in the value chain other than Scope 1 and 2, meaning most of a company's emissions are related to Scope 3 sources, in fact, it's often around 80-90%! So it's absolutely critical to account for Scope 3 emissions.

Scope 3 emissions are divided into 15 categories:

1. Purchased Goods and Services
2. Capital Goods
3. Fuel and Energy-Related Activities
4. Upstream Transportation and Distribution
5. Waste Generated in Operations
6. Business Travel
7. Employee Commuting
8. Upstream Leased Assets
9. Downstream Transportation and Distribution
10. Processing of Sold Products
11. Use of Sold Products
12. End-of-life treatment of Sold Products
13. Downstream Leased Assets
14. Franchises
15. Investments

How do accountants and finance teams play a role in all this?

Have you ever thought about how hard it is to know whether a business is truly sustainable? If you were buying new office equipment for your own business, could you easily understand whether one keyboard or desk supplier emitted less carbon than another? The answer is no. And that's because not all businesses are carbon accounting properly. This means it's very hard for businesses to make informed decisions from a carbon or sustainability perspective, despite the desire to do so.

Carbon accounting has never been more important. It's essential if businesses are to make informed decisions, and if industries and countries are to meet net zero targets. The PEM VFO team uses Xero (or CSV downloads from other systems) that integrates with Sumday's software, to provide you with relevant financial and activity data. This transaction data can then be coded to the relevant emissions source in Sumday and reports can be prepared for audit readiness and easy reconciliation with financials so you can see where your business stands through reports and dashboards.

So, if you're would like your business to start carbon accounting, or more information about Xero or Sumday, contact our VFO team to discuss in more detail.

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Making a financial audit run smoothly for your charity or non-profit.

For any business, the annual external finance audit can be an arduous and time-consuming task. For charities the low audit threshold (one tenth that of a small company) means that the audit can be resource and time intensive for the charity involved.

The ideal is always to have the audit go without a hitch, and for the external auditors to be out of the way as quickly as possible. No offence taken, of course! After decades of performing audit and assurance services, we understand the extra pressure that a financial audit places on internal teams.

Of course, there will always be challenges. Unforeseen questions and unexpected financial anomalies will slow things down, but there are several things that every charity can do to help make a financial audit run smoothly. From planning and preparation, to doing the right groundwork with your external audit team, here are our top tips that every charity can do to make sure your financial audit goes as smoothly as possible.

What is a financial audit and why is it so important to get it right?

Let's start at the beginning. A financial audit is a systematic examination of an organisation's financial statements, records, transactions, and internal controls. The main purpose of a finance audit is to provide an independent and objective assessment of the accuracy, completeness, and reliability of a charity's financial information. An audit gives an increased level of assurance compared to an independent examination, where assurance is limited. It focuses not only on whether the Trustees believe the accounts give a true and fair view, but whether the auditor believes the accounts present a true and fair view of the charity's affairs.

So, why is having independent assurance so key? The financial audit provides assurance for users of a charity's financial statements that they are materially correct, giving greater confidence in decision making. This kind of trust in your financial statements is vital for any charity looking to build the trust of all stakeholders, from beneficiaries, to volunteers and donors.

Does every charity need to complete a financial audit?

If you're a small charity, with either income of less than £1m or income of less than £250,000, if your assets are over £3.26m, the simple answer is no. As a smaller charity if your income is over £25,000 you can choose an independent examination, if your income is less than £25,000 no scrutiny is required, unless it is written in the charity's founding documents.

An independent examination provides negative assurance, by checking the accounts but assuming that the underlying records are correct. The process provides a lighter scrutiny, and focusses on specific matters only; the cost is significantly less than an audit, and an examination provides assurance to trustees and those associated with the charity.

That's not to say however, that a financial audit isn't worth considering. Regardless of the regulations, there are plenty of reasons to choose to get your charity accounts audited. Compliance, donor requirements, confirming the validity of financial statements (as above) and the recommendations your auditors can make around internal controls can make using audit assurance services well worth the investment.

How long does a financial audit take?

Timings can vary depending on the size and number of income streams within the charity, but typically, financial audits are scheduled in three phases. This allows the auditors a phase of up-front planning, a fieldwork phase at the charity's base (or remote if necessary), and a final phase to draw up the report. As a charity therefore, you will need to prepare for members of your finance team to be lightly engaging in the audit, on-and-off for much of the time. However, the fieldwork stage should be the all-hands-on-deck phase to maximise efficiency.

Internal groundwork: how charities can prepare for a smooth financial audit

Planning and preparation are key to making an audit go smoothly, the more preparation that is done in advance of the scheduled audit time, the smoother the experience and more efficient the process. It should take a charity with limited financial issues just a few weeks to prepare for an audit. However, even if you're fully versed in how to conduct an audit of financial statements, extra time spent up front will often save cost and time later.

For most charities, unless you are lucky enough to have significant investment income, the key to comprehensive preparation is to deep delve into agreements – grants and donations – to make sure you understand the terms and conditions and how they impact entitlement, probability of receipt and measurement.

Plan your personnel

It might seem obvious but surprisingly few finance departments thoroughly think through their strategy for allocating time and people to their audit. Teams that are overstretched or inexperienced will always slow down the process. Where possible, ensure that support is in place on day-to-day accountants to help lighten the load and free them up to focus on the most pressing financial audit tasks.

Have a contingency team in place

There is nothing like mid-financial audit holiday or staff sickness to upset your timelines. These things happen, so why not ensure upfront that you have cover in place and that everyone that needs to be is fully briefed on the process.

Ask questions early

Your newly appointed audit manager should ask plenty of questions and inform the auditors as much as possible about your businesses' accounts during the planning stage. Better still, schedule a face-to-face meeting to discuss plans with your auditors to understand the process and raise any potential issues well before the finance audit gets underway.

Want to really get a head start? Take advantage of working with quality auditors who encourage their clients to highlight queries on accounting treatments throughout the year and seek advice along the way.

Get all your audit files and schedules ready in advance

It probably goes without saying, but if your accounts aren't ready to be reviewed, we can't get on with your finance audit. Time spent searching for mis-filed documents and correcting minor mistakes is valuable time wasted.

The audit and assurance services that can help smooth things along

From appointing a hands-on team, to encouraging time on-site, there are a few things you can look for in your external audit team to ensure your financial audit goes smoothly.

Is appropriate resource secured?

It's important that you understand how your external audit team will operate, so feel free to ask. An audit is carefully scheduled based on a time budget for how long each area of the audit testing takes to complete. At PEM, this is done at the planning stage and revisited once a compliance cycle is complete to ensure the resourcing allocation is appropriate. Make sure you agree the mix of on-site and on-line time up front so that you know when you can expect the team to be working on your accounts.

Should your audit team work on site?

From our experience, we would always say a hearty 'yes!'. Although it can be awkward to accommodate the extra bodies, we place emphasis on being site-based where possible, and always schedule in regular calls during remote financial audits. Engagement managers complete reviews of audit testing during the fieldwork time so that any review points can be addressed in a timely manner, and so that the engagement manager has a chance to interact with clients to build the working relationship. And of course, you and your team respond much more readily to requests for information when your feel like a valued part of the process.

Can a hands-on finance audit team save time?

Our hands-on approach involves the entire engagement team, meaning that any issues that arise are looked at on a real-time basis by everyone, and a solution decided upon. The result? No last-minute challenges are revealed as a filing deadline approaches.

Is blanket financial audit testing always appropriate?

We don't think so, no. We specifically tailor our audit to each individual client. Our approach to testing is based on a deep understanding of the charity and where the risks in the financial statements are.

As a result, unlike a blanket audit testing approach, you can expect your audit testing to be very targeted, and more time efficient.

Can the audit timeline be based on your dictated deadline?

Your financial audit timelines should work for you. We understand what deadlines are important to our clients, so we approach logistics based on these. Beyond statutory filing deadlines, charities need to work around committee dates, board dates and respect trustees' availability.

Is an audit findings report standardised?

Your audit team will have established what an audit financial statement report looks like to them. Although there are statutory elements, there are ways audit teams can make sure your report works hard for their client.

Our audit findings report is tailored to management and those charged with governance. Reports from auditors to those charged with governance (trustees) will meet statutory communication requirements, however you should also expect meaningful and useful information, noting pragmatic recommendations based on the size and resources of the business.

Set your sights on a smooth financial audit and smooth audit you will have.

As you've discovered, it is certainly possible to set yourself up for a smooth finance audit. With the right people, planning and preparation in place on your side, and an external audit team in place that you can trust to respect your individual charity's needs – enjoying a smooth next audit is well within your reach. Speak to find out more about how we can help.

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Campaigning and political activity.

With the forthcoming election and the chance to influence policy on the UK's mind, charities need to familarise themselves with the relevant rules on campaigning. The Charity Commission has guidance in the form of CC9 "Campaigning and political activity guidance for charities (CC9)".

Charities can campaign to achieve their purposes. But a charity can't:

- have a political purpose, or
- undertake political activity that is not relevant to the charity's charitable purposes

Trustees must not allow the charity to be used as a vehicle for the expression of the personal or party political views of any individual trustee or staff member.

Charity trustees must carefully weigh up the possible benefits against the costs and risks in deciding whether the campaign is likely to be an effective way of furthering or supporting the charity's purposes. They should think about what laws may apply to their proposed methods of campaigning and political activity.

Linked to campaigning is the charity and the charity's staff and volunteers use of social media. This therefore is also an ideal time for trustees and managers to review their social media policy to make sure it is fit for purpose, more guidance can be found on GOV.uk Charities and social media - GOV.UK.

Updating the Code.

The Charity Governance Code was last updated in 2020, in line with the original intention to review and update on a three yearly basis. It remains a voluntary code and whilst experience would say charities are aware of the code and its key recommendations, the number that report against the code is more limited. Further information on the Code update can be found on the Charity Governance Code website. The Steering Group also sets out its purpose on the website.

"In 2024 the Steering Group want to take a wider look at the Code, exploring its content, structure, applicability to different sizes of charity, the use of language and user-friendliness of the framework. We are also interested in exploring the barriers or obstacles to using the Code. As such we invite responses to the consultation from both users and non-users. We are interested to hear from those with awareness of the Code and those who have limited familiarity."

As well as including questions for non-users, the questions also seek to find out whether those using the code have found it difficult to implement and whether the code is considered stretching to support the continuous development and improvement of charity governance.

The consultation lists a number of areas, shown below, seeking to identify whether these are areas upon which charities would like additional guidance.

- Artificial intelligence (usage and application)
- Boardroom behaviours
- Cybersecurity and cyber risk
- Climate change and environmental issues
- Engaging with issues of cultural significance
- Financial resilience
- Fraud
- Investments and their management
- Lobbying and campaigning
- Political engagement
- Risk management
- Senior staff pay
- Technology and data
- Trustee succession planning

The consultation also raises the issue of how future revisions and management of the code could be funded with an open question as to how the code development should be funded, as well as suggestions that organisations or advisers pay a fee to support the code.How to respond to the consultation

To respond to the consultation you can visit the Charity Governance Code website.

They estimate that the survey will take no more than 30 minutes but there is no option to save responses and return to the survey. When you start, you'll need to complete it in one sitting.

You can **download the survey questions** if you are interested in seeing the full consultation and to help prepare your answers.

The consultation process will run from 21 May 2024 until 11 August 2024.

Charity brand, trust and giving.

Third Sector published its fifteenth edition of the charity brand index in June 2024 based on a sample of 4,000 people. The top two charity brands remained the same as the prior year and the focus of the most well-known charities remains similar being illness, animals and children.

The survey also found that environment charity lost the most places in 2024 in comparison with 2023.

You can see more information about the top charity brand on the Third Sector website.

The Top 10 (2023 position) as [reported by the Third Sector]

1. (1) Cancer Research UK
2. (2) Macmillan Cancer Support
3. (6) British Heart Foundation
4. (3) RSPCA
5. (5) BBC Children in Need
6. (12) Battersea
7. (14) British Red Cross
8. (7) Marie Curie
9. (11) NSPCC
10. (20) Great Ormond Street Hospital Children's Charity

The importance of trust, which is often supported by and reflected in strong brand recognition was the subject of the Charities Aid Foundation (CAF) Giving Report in 2024.

This report, based on over 13,000 individuals aged 16+ has been extrapolated to provide a giving landscape of the parliamentary constituencies of the UK, with a headline result that:

"Some of the least affluent parts of the uk are among the most generous".

Some of the report highlights are set out below:

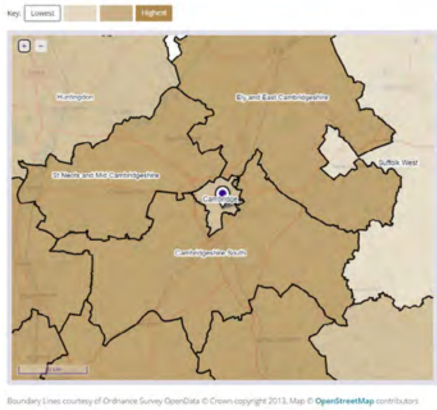
- Seventy-five per cent of adults did at least one charitable activity in the past 12 months, and nearly six in ten (58%) donated or sponsored
- The public donated an estimated £13.9 billion to charity in 2023
- Personal recommendations significantly influence individual giving but 68% of people don't tell others when the donate or volunteer
- The typical donation to a charity is £20 per month and has not increased since 2017. Inflation means the purchasing power of that donation has diminished and a donation of £25 per month would be needed in 2024 to maintain spending
- The mean average monthly donation has increased to £65 per month from £60 in the prior year
- Higher levels of trust are mainly limited to areas where people are more likely to donate but those people tend to give less as a proportion of their income.

The CAF website provides an interactive map to provide local information. Three charts have been generated below using the CAF website to present the results for Cambridge and the surrounding constituencies. The first (brown/beige) map shows results by number of donors, the second (green) map estimates the % of income donated and the third (red) map shows the absolute total donated.

The maps show that although the total donated from Cambridge and South Cambridgeshire has a 'high' monetary value (the red), that those giving are giving a lower percentage of their income than elsewhere in the country and indeed, in Cambridge, the number of donors engaged is lower than elsewhere in the region.

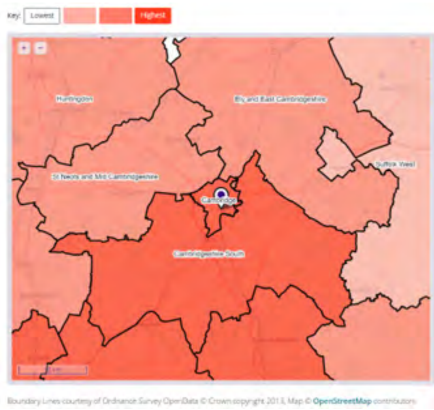
These results perhaps reflect the relative wealth of the region but also provide a challenge to charities fundraising in Cambridgeshire to increase the number of donors and the relative size of the donation. The results on the CAF website can be used to focus on the regions most relevant to where your charity operates.

Donors



Donation as a % of income

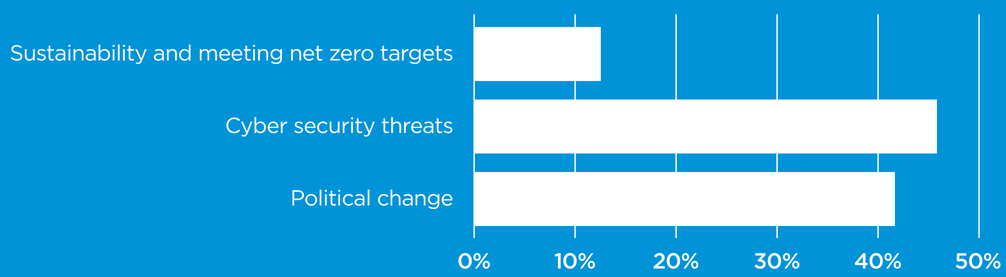
Total donated



Charity Finance Group Annual Conference 2024.

Nikki Loan and Michael Hewitt were delighted to be at the Charity Finance Group Annual Conference on the 27 June. We would like to thank everyone who stopped to talk and CFG for organising such a good event.

For those of you who stopped by the result of our straw poll on the biggest risk you thought your charity would face in 2025 were...



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