Accountancy rules and reporting:

COMPLIANCY IN AN ONLINE WORLD

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Panel:

Gillian McKay is the head of charity and voluntary community at the ICAEW.

Andrew Spence is a pre-sales director at software company Sage UK.

Jennifer Wilson is the senior account manager at software company Sage UK.

Kim Broodie is a finance officer at women's charity Ovarian Cancer Action.

Gabriel Agbo is an accountant and administrator at Cash Online.

Ian Blackwood is director of finance at The Royal Institution of Naval Architects.

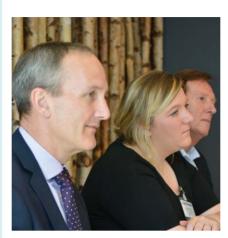**Matthew Roberts is the chief executive of education charity TalentEd.**

Sarah Goldsmith is a financial accountant at North Hertfordshire Homes.

Daniel Chan is a manager at accountancy firm PwC. He is also a charity trustee.

Accounts play a number of different roles within a charity. From legal requirements to methods of communication – accounts are vital to the way a charity operates. The main aim of accounts, and the reporting of them, is to provide a clear picture of the way your charity operates, and what its financial position looks like. The trustees' annual report is also an opportunity to show the public and funding bodies exactly where your charity has been spending and investing money.

However, in recent years, this has become a far more difficult task for charities to keep on top of. With an increasing number of legal and governance duties placed on the third sector, there is pressure for charities to invest in digital systems that can automate the process and make reporting and transparency much less time-consuming.

Together with Sage, *Charity Times* gathered a panel of experts to discuss some of these issues and how to remain compliant in what is becoming an increasingly online world. The digital solutions are available for charities, but remaining fully compliant whilst using them is a whole other ball game.

Kicking off the discussion, Sage UK pre-sales director Andrew

Spence notes how Sage has been actively working with charities to help minimise any accountancy burdens. Spence draws reference to the collaboration between Sage and the RSPCA (see p.46), explaining that despite being one of the UK's largest charities, the RSPCA still required help in managing not only its accounts and the paperwork that comes with it, but also its transparency with the public.

"We all know [transparency] has been in the press a lot recently too. The transparency of charities to their funders is key to ensuring funders are happy to continue giving their money and resources," he explains.

One of the key methods used to eliminate the risks associated with transparency is utilising technology to drive the fundamental end goal, Spence adds. "Cloud computing is an example of this, which essentially means you don't have to spend a lot of money. You simply pay for services as a subscription. This is something that can help charities to invest in the latest technology and digitise their finance organisation."

The cloud
Gabriel Agbo, an accountant and administrator at Cash Online, explains how the Community Accountancy Circle he works with provides financial training and has recently switched over to the cloud.

"I really think the cloud is better than a machine. With the GDPR, it is even clearer now that people don't know what is happening with their data, and are unsure of the security of online, so the cloud really helps to ensure it's all kept in one place safely."

But the nervousness surrounding cloud products vs the desktop is only burning off slowly. "There is progress," Agbo explains, "but it is slow, and transparency is essential."

Gillian McKay, who is the head of

Alessandra Magri is charitable trusts and foundtaions administrator at PWW.

David Oates is a finance director at UK-based charity The Duke of Edinburgh's Award.

Helga Edwards is a director of corporate services at the Woodland Trust.

Simon Bowker is an interim finance director at UK-based charity Sustrans.

Nigel Armitt is the chief financial officer at Cancer Research UK.

Violet Howe is the head of finance at the UK-based youth organisation UK Youth.

charity and voluntary sector at the ICAEW, says there's a collective lack of understanding about what is involved in cloud technology. "We're all used to something physical, hard, and incredibly transparent. With cloud technology, the principle of that goes away, and people are worried about such a shift.

"The cloud is essentially a server in a datacentre somewhere. It's not managed by you, it's managed by somebody else. We've seen over the last five years or so that all organisations are now having to locate their datacentres in certain regions throughout the world. That's a new concept for everybody and it brings new risks."

"I think it's important to ask your suppliers where your data is actually held. You need to ask how it is looked after and what the security protocols are. You also need to challenge your supplier, because ultimately, it is your responsibility and you're the one to get the bad press if there's a breach," she adds.

Cyber risks
Data breaches are becoming increasingly more common,

particularly among charities, which are often much more vulnerable to cyber-attacks due to an overwhelming amount of data and poor IT systems.

Nigel Armitt, chief financial officer and executive director, corporate services at Cancer Research UK says it's absolutely necessary to be prepared and have a contingency plan in place to avoid being "caught out".

"Recently our systems were down – which I'm sure plenty of people around the table have experienced – and what was interesting was that our technology area mobilised themselves to quickly communicate with everybody in the organisation.

"They sent a text message to all staff they had on their database, but of course that is reliant on everybody having up-to-date mobile phone numbers on the database. But it certainly shows how well organised technology must be and how a contingency plan is essential."

No matter how large or small cyber-attacks are and how prepared a charity is, the impact will always be felt.

In Cancer Research UK's case, the

main issue was the initial shock and disruption. "It's a disruption to everybody's day job because nobody has any idea how to proceed. However, after that, management takes over and then people start to calm down – just knowing somebody is in control and is going to take care of the situation."

Simon Bowker, interim finance director at Sustrans comments: "It is well-known that the size of

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cybercrime is bigger than the international drugs trade in terms of value to criminals".

"If your finance departments are anything like ours, you'll probably get bombarded by phishing scams, which are more and more sophisticated, and it's increasingly challenging to spot that they are not genuine. You have to be constantly vigilant."

But, Bowker notes, the key is to ensure all of those instances are not only reported to the national authorities, but are also used as training materials within individual organisations to make sure there's a "culture of alertness and understanding of risks".

Transparency

The general consensus among the panel is that while the cloud and technological systems are beneficial to the organisation of a charity's accounts, it is still important to ensure there remains a human element within the process to prevent charities from losing a connection to their beneficiaries.

Transparency is also key in building a strong relationship between charities and their beneficiaries. In a climate where the public's trust in charities is low, it is essential charities provide an honest and accurate representation of their financial situation.

Jennifer Wilson, senior account manager at Sage, backs up this notion from a personal perspective: "I was talking to my sister and a group of her friends recently and they will absolutely read annual reports on a charity's website to see the financial numbers and what money is being spent where. Because that is what people care about now.

"This is particularly the case in larger organisations, whereby the expenditure number is typically bigger. But those numbers aren't always displayed in the best way."

However, Daniel Chan, manager at PwC highlights that annual reports and accounts are only one part of the suite of reporting. "It also includes websites, social media and a whole range of different sources where stakeholders, including the general public, can get information from charities to make sure they are all telling the same story, and to make sure they are consistent," he says.

"So, it is really important to speak with one voice as an organisation, so that when people do go to your website, do go to social media, and look at the accounts all in one go, they are seeing the same message coming out from the organisation."

Risk management

Managing the reputational risks that derive from a lack of transparency, as well as the cyber risks that are inflicted as a result of poor IT management are part of the reason accounting and reporting has become increasingly difficult over the past few years.

Furthermore, remaining compliant can feel virtually impossible when data is handled remotely. Helga Edwards, director of corporate services at the Woodland Trust argues that regardless of what systems are used and where they are hosted, human beings are always behind it, thus, there will always be risks involved.

"At the Woodland Trust, we've been working with our staff and volunteers on security awareness training, which has been taking place over several years because if anything's going to happen, we

know there will be a human being behind it. So, Sage could be the very best, but somebody somewhere is going to make a mistake, and we're always anticipating an incident will happen."

Bowker agrees, adding that it's important to ensure staff training is common place throughout all charities, not just those that have experienced any issues. "At Sustrans, we've just conducted a self-assessment of our risk management model for financial crime. It was initially just going to be against tax evasion under the Criminal Finances Act, but we were guided to widen the scope of it and consider fraud, bribery and money laundering." he says.

"It's really helped us to stress-test our existing controls and identify some opportunities to enhance awareness further."

The panel draws on the process of e-learning, highlighting how staff training is only valuable up until the point of exiting and entering employees. "You can do a training programme, but what about all of the new people?" Spence asks. "I think e-learning is a blessing."

Investment for the future
As highlighted in the discussion,

there are a number of different factors involved in the process of managing accounts, and the easiest solution to issues surrounding transparency, organisation, data-handling and security is to turn to technology for support. But the main concerns for many charities are cost.

"Charities need to educate the public and be truthful about the cost of running a charity. "

But despite this, not all technological developments need to be a drain on finances. E-learning, for example, can be done for free if executed correctly. "Every two years or so, you can run a refresher. And to do that, you literally just send out an e-mail – not a phishing e-mail – and you run through it, and that's a great, cost-effective way of rolling training out," Spence explains.

Chan adds that there is a "need" for the sector to "tell an authentic story" and an investment in IT can help to do that.

"Charities are expected to be proactive in being transparent and saying to the public: 'We will give you much better value if you give us one pound to spend on IT'. By

changing the storyline around the way we present information, we are more likely to find that the public is a lot more willing to spend money on the cause."

Education
As the panel highlights, being compliant in an increasingly online world is never going to be a particularly easy task. But, from knowing where your data is held to being honest and upfront in the reporting of accounts, the key is to ensure you always put the public first.

Alessandra Magri concludes: "Going forward, it's just really important charities engage with and educate the public". "Charities can often mislead the public by saying, for example: '£10 will give education to a child for a year'. What they don't know is that some of that £10 has to go to overheads.

"We just really need to be upfront. Charities need to educate the public more through their finances – be truthful about the cost of running a charity. It is all about empowering perceptions by being really transparent in what charities are achieving and how they are doing that. Then, the sector will gain the trust of the public again." ∎