



# ICAEW AND CHARITY COMMISSION REVIEW PROJECT

## **FINDINGS FROM THE ICAEW AND CHARITY COMMISSION REVIEW PROJECT ON STRATEGY DEVELOPMENT, IMPLEMENTATION AND REVIEW**

### **SETTING THE SCENE**

Following the successful review project between the Institute of Chartered Accountants in England and Wales ('ICAEW') and the Charity Commission in 2012 on [financial controls and risk awareness](#); in May 2013 a second project was launched on the review of [charities' strategy development, implementation and review](#).

This review followed the pattern of the previous one, with 26 charities, with income of less than £5m, volunteering to be reviewed by 26 experienced practitioners.

The reviewers and charities discussed and agreed the review reports, which ICAEW have collated. The collective outcome of the reviews is summarised anonymously in this report, which includes findings, themes and feedback from the reviewers participating in the project.

### **Timetable for the project**

After the May 2013 launch, charities and reviewers were invited to volunteer to participate.

Volunteer ICAEW members with experience in the sector were matched to charities by location, whilst ensuring there was no conflict of interest.

The framework and supporting documentation used in the review project were designed in collaboration with the Charity Commission and are publicly available on the [ICAEW's website](#).

The reviews were conducted in the Q4 of 2013 and have been discussed and agreed with the charities.

In order to prepare the initial draft summary of the anonymised report, completed reviews were received by me and the Head of Charity and Voluntary Sector at ICAEW.

This draft report was discussed with reviewers at the Reviewers Panel meeting in January 2014. A representative from the Charity Commission joined the meeting after the detailed discussions on the reviews to hear comments from the reviewers on the project.

In addition, reviewers and charities were able to make comments about the process via an anonymous on-line questionnaire.

The final summary report was discussed with the Charity Commission and will be available on the [ICAEW](#) website on 29 April.

### **Content of Review**

Prior to the reviewers meeting with the charities, it was suggested that the reviewers should research the following documents provided by the charities:

- Governing document (this may be a Trust Deed, Memorandum & Articles of Association, Rules, a Will or Royal Charter)
- Accounts
- Website
- Vision/Mission Statement
- Strategic documents such as Business Plan

In terms of detail, reviewers discussed the following broad topics with both the CEOs (if applicable) and the trustees within the overall review of strategy:

- Trustee responsibilities
- Strategic planning
- Decision making
- Strategy and change management
- Financial sustainability and risk

## **GENERAL FINDINGS**

It has not been a straightforward task to synthesise the reports and draw out clear conclusions. This stems from the very nature of “strategy” as a process with many facets, many influencing factors and different degrees of understanding the process.

It can be only too easy when analysing results from this type of review to concentrate on the negative issues. It is important to highlight these to be able to focus on areas for improvement; however, it is equally important to highlight that many charities in this review have produced effective and efficient strategies. It is also apparent from the review that there are considerable advantages to be gained by charities who undertake the strategy process.

There were a number of general themes emerging from the reviews some extant of the detailed findings on strategy including:

- Those charities with strategies appear more able to deal with fluctuating economic conditions
- Few charities considered mergers in their strategies
- Many trustee boards lacked both financial and general experience, particularly in developing strategies
- A number of charities appeared to suffer from a conflict between the CEO and trustees
- Few charities linked strategy to risk assessment

## **REVIEW TOPICS**

### **Strategy Development**

There was a clear theme that larger charities were more likely to have a thought out strategy than smaller charities (see fig. 1). 88% of charities with income over £1m had strategies compared to only 44% of charities with income under £1m.

Across the range of those with little or no formulated strategies, a recurring theme was their concern for survival rather than devoting time to longer term strategies.

## **Strategy Implementation**

Of those charities with strategies, implementation was generally good.

There was definitely a theme that those with strategies were better able to meet the financial challenges within the sector, allowing time to think about new income streams, mergers and even change of direction.

## **Strategy Review**

Generally, those charities that had developed and implemented a strategy also reviewed it on a regular basis.

## **THEMES**

There were a number of themes that came from the review, both directly from the reviews and the wider experience of the reviewers. Some of these themes are tangential to strategy, however play an important part in how charities are organised and run and therefore have a direct influence on their strategies.

### **Collaborations and mergers**

- There was a general concern that mergers with larger charities affected the quality of services hitherto provided by smaller charities, particularly at the local level. However, there was recognition that there were significant difficulties for smaller charities in obtaining funding. There seemed to be a perception that funders prefer to give to the larger charities. The review panel felt that more work needed to be done to reassure funders that it was safe and, in many cases, desirable to fund the smaller charity.
- Three of the charities reviewed had recently undertaken mergers; two successfully, one unsuccessfully. The general consensus from the reviewers was that the merger process is difficult; good for some but not for all, expensive if it goes wrong and can be a considerable drain on resources, particularly in terms of both management and trustees' time.
- Charities often have a strong sense of identity and the review panel recognised that this made mergers very difficult. Therefore, more emphasis needs to be given to collaborations and charities generally working together. Once again, the panel felt that more help should be developed in this area and that umbrella organisations could lead the way by developing structures and processes by which charities could collaborate.
- There was also a discussion around the number of new charities that were being registered each year and the dichotomy of new money being invested in the sector by the creation of new charities and the value for money of having a greater number of smaller charities, each with their own overhead costs. The panel recommended that the Charity Commission should be more stringent in its registration process and that legislation should be developed to allow it to refuse registration where it believes the new charity is very similar to an existing charity.

### **Role and responsibilities of the trustee**

This aspect covered the trustees' involvement, not just in the whole strategy process, but also in the running of their charities.

- There were a number of instances during the reviews where it was obvious that the trustees lacked a sound appreciation of their roles and responsibilities. Examples

ranged from groups of trustees within a board taking little interest in or having little knowledge of how their charities operate; total reliance on the CEO and a general lack of skills in connection with the charities for which they acted.

- In some cases, based on the reviews and from the reviewers' wider knowledge, trustees were not respected by management. Generally, this type of behaviour leads to disconnect between the two groups of people and to disjointed and dysfunctional operations. The panel felt there were a number of reasons for this lack of respect and these ranged from arrogant trustees; boards that lacked confidence to challenge management; boards that lacked competence; boards that lacked understanding of how the charity operated; and boards that lacked commitment to their charities. The panel felt that there was a need for trustees to develop soft skills to improve the effectiveness of inter-personal relationships.
- There was also some anecdotal evidence to suggest that boards with a high proportion of service users might be less effective. However, there was a feeling amongst the reviewers that funders liked service-user led charities.
- Where boards did have a financial person, there was considerable reliance and a tendency to abrogate responsibility by the rest of the board. In one review, the CEO filled the missing financial skills set within the board!

### **Relationship between risk and strategy**

- A number of particular concerns were brought by the Panel in regard to the whole process of implementation and monitoring strategy and in particular, there was no clear linkage between strategy, risk and impact. Many of the charities reviewed had made attempts to measure impact, partly due to this being funder driven; but unquestionably there was a lot more to be done. The panel felt that the whole process of identifying, mitigating and monitoring risk needed to be more pragmatic and less of a red tape exercise. The Panel recommended that the Commission should link its guidance around strategy, risk and impact, to enable charities to understand the relationship between these three areas.
- The reviewers felt that not even charities with a reasonable degree of sophistication in their strategy processes use scenario planning techniques to test and challenge their strategies. The panel recommends that the Commission emphasises the potential use of these techniques.
- There appears to be a tendency for boards to concentrate on downside risks and miss the opportunities on upside risks.

### **Other themes**

There were a number of other themes that evolved from the review and the Panel discussion.

- Both during the review and from their experience, the Panel recognised that there were instances where charities were unaware of exactly who were the members as defined by their constitution. There also existed conflicts and difficulties between charity, trading subsidiary and Friends' boards. The Panel recommends that the Commission should seek to clarify guidance in these areas.
- Another theme links to the whole question of competence, confidence and commitment of charity trustees, as there were a number of examples from the

reviews where Board papers were not fit for purpose. The quantity of paperwork was either too much or too complex or management accounts were not appropriate for making management decisions, e.g. there was no differentiation between unrestricted and restricted funds.

- There was also concern that charities were in danger of mission creep due to pressure from funders to vary activities.

## **Recommendations for the Charity Commission**

### **Process**

- Provide Commission guidance on strategy processes and link to risk and impact
- Encourage charities to use scenario planning techniques in their strategy planning
- Clarify guidance on conflict with subsidiary and Friends boards

### **Capability**

- Emphasise the need for trustees to hone their soft skills in dealing with others within their charity
- Undertake research to further explore the causes of shortcomings in the performance of board effectiveness regarding governance and strategy

### **Regulation and Promotion**

- Encourage funders not to ignore the smaller local charities
- Encourage umbrella bodies and the like to help develop collaborative working practices
- Change the law to enable the Commission to refuse registration where a similar charity exists

## **Conclusion**

It was apparent that the charities that had a strategy (58%) were better equipped to meet pressures and to even change direction. For those without strategies, there was a theme for the very small charities that survival was all consuming. Whether a strategy might have helped mitigate their financial plight is inconclusive.

Generally however, those charities that had strategies, embraced them and used them to the advantage of the organisation.

More disappointing, was the continuing theme of poor governance; boards not understanding their role; not understanding their charities and not reacting positively with management. The lack of financial acumen amongst boards is also a continuing concern.

## **NICK BROOKS**

Chair of Review Panel

Chair of the ICAEW Charity and Voluntary Sector Group and

Head of not for profit at Kingston Smith

Income bands	Those with strategy	Those with no or little formulated strategy	No of charities
0-£250k	1	3	4
Over £250- £500	0	3	3
Over £500 - £1m	7	4	11
Over £1m - £5m	7	1	8

