



Auditor perspectives: Dispelling common myths about charities



Did you know?

From 1 November 2023, ICAEW's revised Continuing Professional Development (CPD) Regulations bring in new CPD requirements, including a minimum number of hours and an ethics requirement.

This webinar could contribute to up to 1 hour of verifiable CPD, so long as you can demonstrate that the content is relevant to your role.

Find out more about how these changes affect you at [icaew.com/cpdchanges](https://www.icaew.com/cpdchanges).



CONSULTING FOR PURPOSE

Dispelling the myths

ICAEW Charity Community Webinar - 14 July 2023

Pesh Framjee



The myths

1. Charities spend too much money on fundraising
2. Charities should not make a surplus or build up cash reserves
3. Charities are spending too much on high-paid executives
4. Charities should not undertake commercial activities
5. Charities should be run and staffed cost-free by volunteers
6. Charities spend too much money on overheads
7. Charities don't have to pay taxes so need less money
8. You need professional qualifications to become a charity trustee
9. Charities are less vulnerable to fraud than other organisations
10. Charities should not engage in campaigning and political activity

The myths are often perpetuated by poor thinking and ill-informed reports

Charity Name	Spending on Charitable Activities As % Income Last Three Financial Years	Last Financial Year Income	Last Financial Year Spending On Charitable Activities
Lloyd's Register Foundation	1%	£1,062,537,000	£14,490,000
The Racing Foundation	3%	£50,932,901	£1,146,153
The Motability Tenth Anniversary Trust	8%	£54,376,000	£4,093,000
Consumers' Association	24%	£102,831,000	£22,700,000
Sheffield City Trust	25%	£48,186,000	£12,000,000
The Grace Trust	33%	£91,678,745	£30,160,000
British Heart Foundation	46%	£288,200,000	£133,700,000
Sue Ryder	46%	£91,678,745	£42,585,000
Age UK	48%	£174,700,000	£83,956,000
Oasis Charitable Trust	57%	£265,709,000	£151,935,000
The Royal Horticultural Society	60%	£73,157,000	£47,641,000
Dogs Trust		£84,743,000	£57,185,000
Cancer Research UK		£634,900,000	£422,700,000
The Guide Dogs For The Blind Association	44%	£101,100,000	£56,400,000
Shelter, National Campaign For Homelessness			
People Limited			
The Royal National Lifeboat Institution			
Marie Curie			

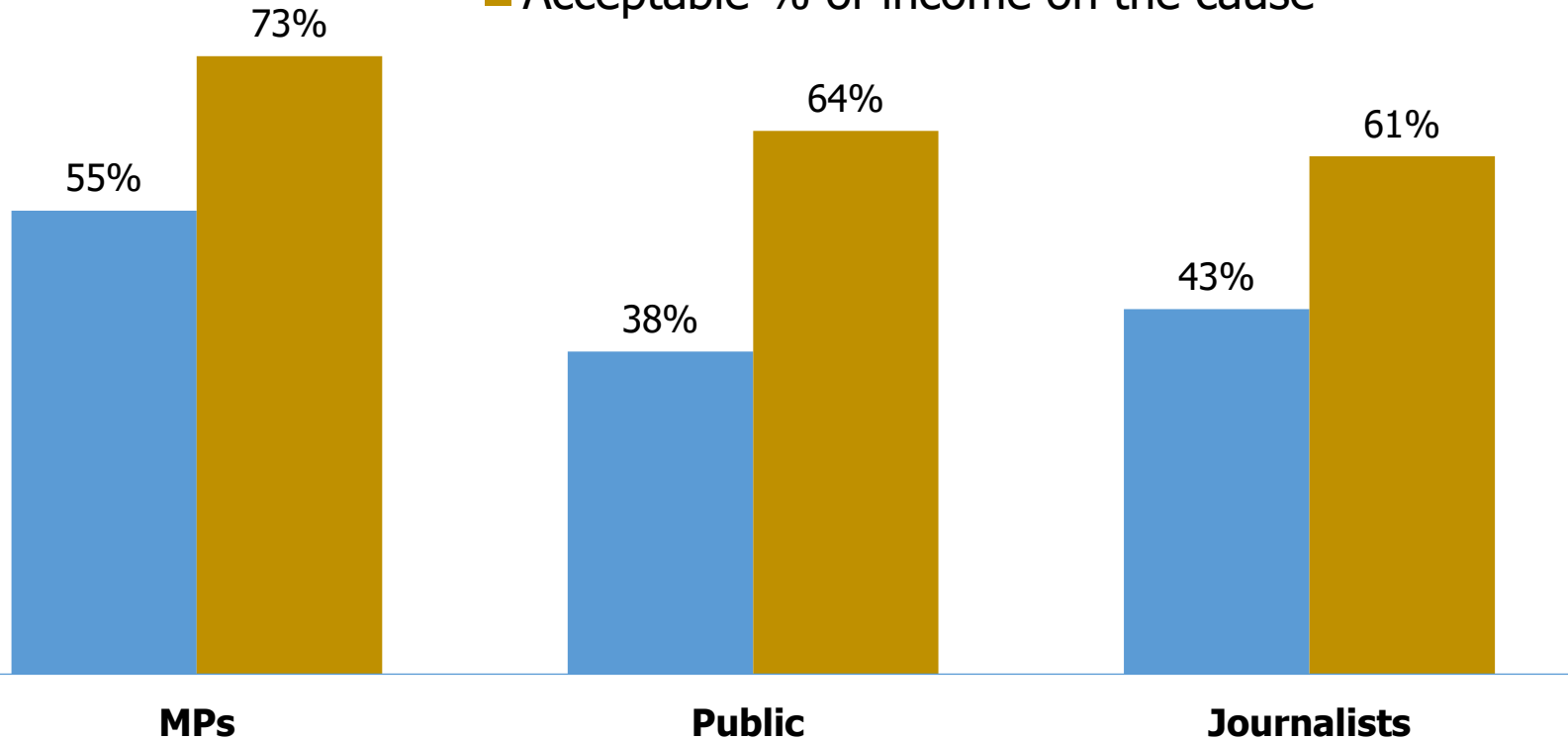
On average of Britain's biggest charities spend more than 50 per cent of total income on good works, new report claims

Exclusive: Some of the charities are some of Britain's best known voluntary organisations such as Cancer Research UK, the Guide Dogs for the Blind and the British Heart Foundation

For the facts see my LinkedIn post : <https://www.linkedin.com/pulse/so-true-fair-my-critique-flawed-report-why-cost-ratios-pesh-framjee/>

Perception v Reality

■ Estimated % of income on the cause
■ Acceptable % of income on the cause



Whilst I don't subscribe to the use of such ratios the reality is quite different

NCVO 2015 Almanac showed

- Charitable spend 85%
- Cost of generating funds 13%
- Governance costs 2%

Myths are damaging

- There are many negative misconceptions created by the myths that abound about charities.
- Too often we see the negative consequences that impact on charities
- It is incumbent on all of us that recognise the important work that charities do to actively try and dispel the myths and ensure that the popular narrative focuses on the facts and reality.
- If you want to know how you can help email me pesh@consultingforpurpose.com



DISPELLING COMMON MYTHS ABOUT CHARITIES

“Charities should not make a surplus or build up cash reserves”



KEY POINTS

Two myths about reserves

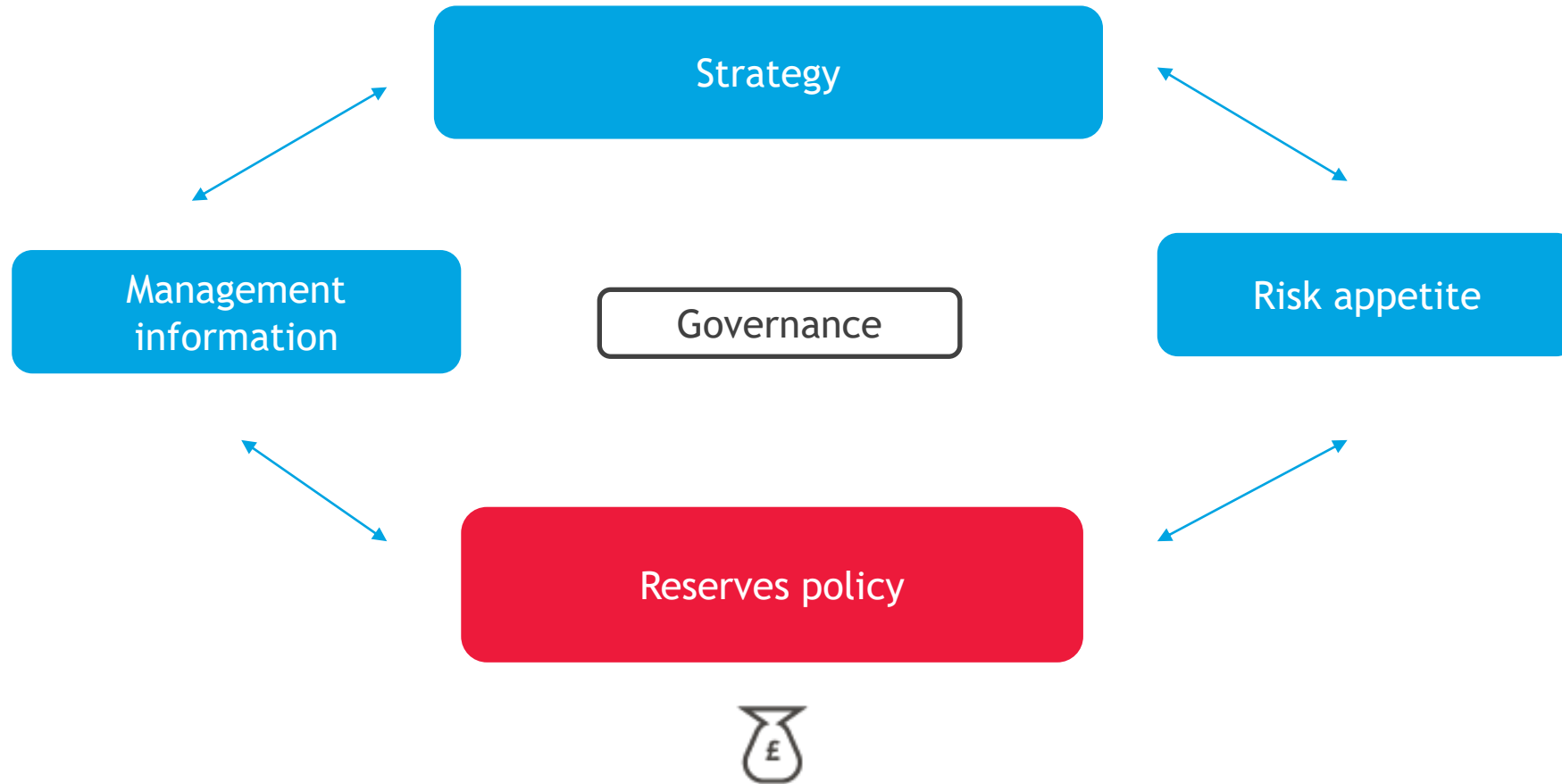
- They should be measured in weeks of expenditure. That is a useful mechanism for benchmarking, but never recommended as a method for deciding reserve levels.
- The “right” figure is between 3 months and 2 years of expenditure. The Charity Commission guidance (CC19) is clear that there is no “right” level of reserves: the overriding principle is that income should be spent with a reasonable period of receipt of funds.

Recommendation: Articulate a clear reserves policy which tells the reader more about a charity’s needs and its stewardship.

KEY POINTS

- Can be hard to interpret a surplus one year and a deficit in another due to;
 - Mismatches between income and expenditure and restricted versus unrestricted funds
 - Income accounting rules often require early recognition
- Reserves can be a function of:
 - Timing differences
 - Surpluses retained to mitigate unexpected fluctuations or unpredictable charitable need (for example humanitarian disaster)
 - Working capital requirements
 - Surpluses built up to cover significant one-off investments
 - Need to deliver charitable objectives over a longer period of time

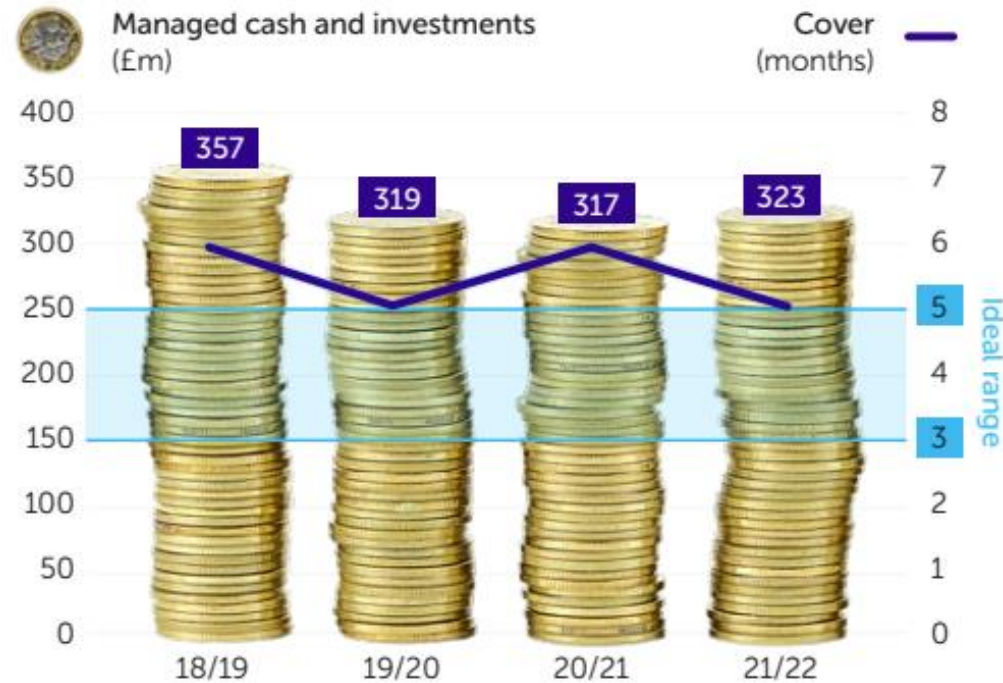
RESERVES POLICY IS KEY TO GOOD FINANCIAL GOVERNANCE



EXAMPLES

Cancer Research 2021/22

HISTORICAL AND BUDGETED MANAGED CASH AND INVESTMENTS



Total managed cash and investments on 31 March 2022 was £323m (2020/21: £317m), which represents around five months of expected gross cash outflows in line with our target.

[Cancer Research UK Annual report and accounts 2021/22](#)

EXAMPLES

RNLI

RNLI ANNUAL REPORT
AND ACCOUNTS 2022

- **Free reserves (£137.0M)** – these are sums that are freely available for general use. They are held at a level to withstand any short-term financial risks, the main ones being in investment markets, pension scheme funding, key

sources of income (such as legacies) and inflation. Most of these funds are held in investments, but they also include any unrestricted legacy values accrued (£34.9M), which will take time to be received. The Trustees have a policy of maintaining a range of 4–10 months of charitable expenditure. This range was determined using risk modelling techniques to determine the value of our

financial risks, in conjunction with our investment advisers. At 9.3 months of charitable expenditure, free reserves are currently at the upper end of the Trustees' range. The RNLI is planning to reduce this in the coming years because of essential investment in our lifesaving services and infrastructure, while also managing inflationary pressures through rigorous financial planning.



FURTHER ADVICE AND GUIDANCE

SORP para 1.48 states that a larger charity should explain in its annual report

- the policy it has for holding reserves
- the amount of those reserves and why they are held
- What you will do if you are operating above, or behind, your reserves policy.

For further reading see the BDO article in July's Charity Finance magazine "The quality of reserves reporting in the charity sector"

14 July 2023

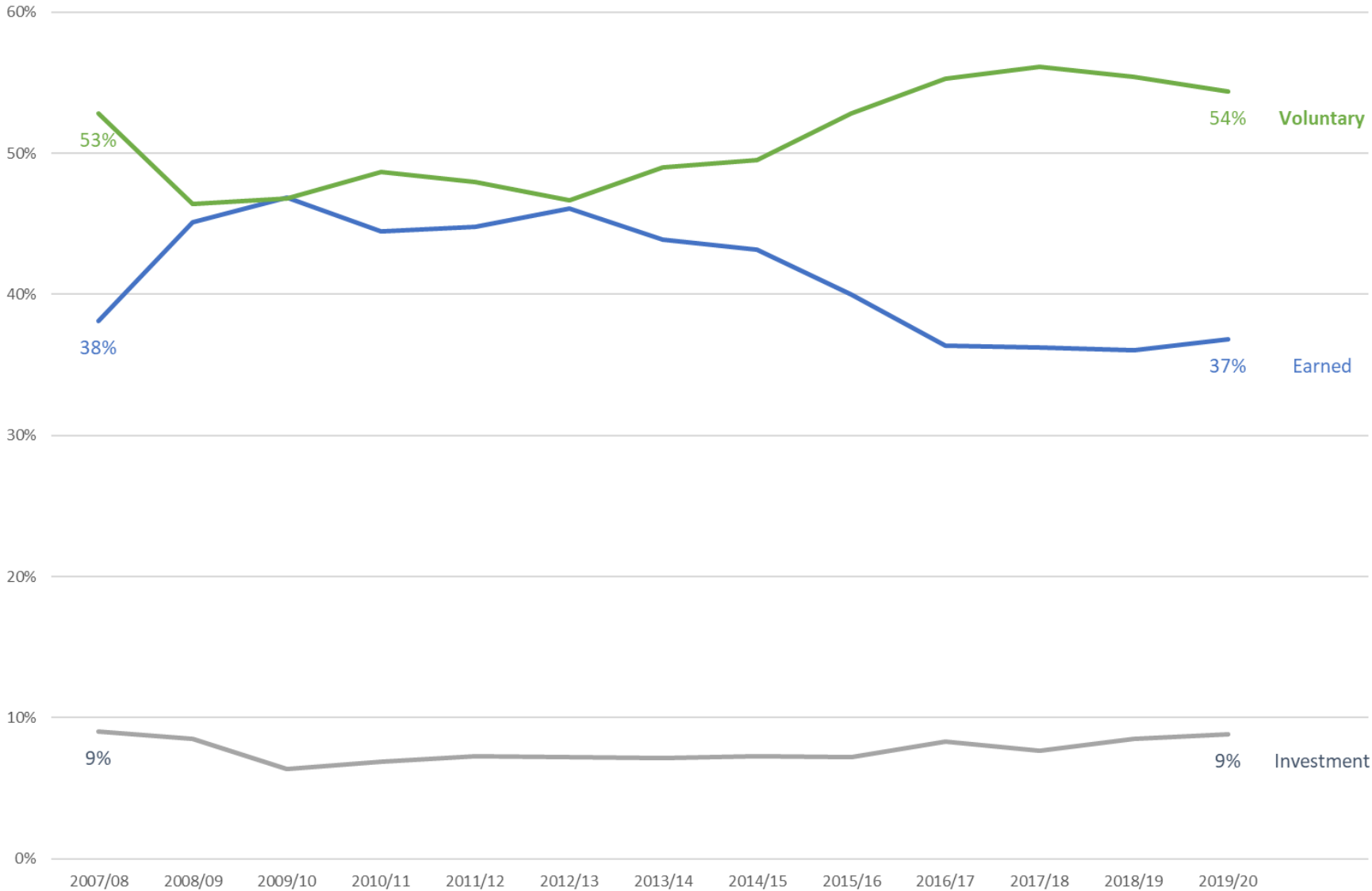


Nick Sladden

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

CHARITY INCOME BY SOURCE

Source: UK Civil Society Almanac 2022



DONATIONS AND LEGACIES

Costs v Return

BRITISH RED CROSS

Expenditure £36.1m

x7.9

MIND

Expenditure £38.1m

x4.8

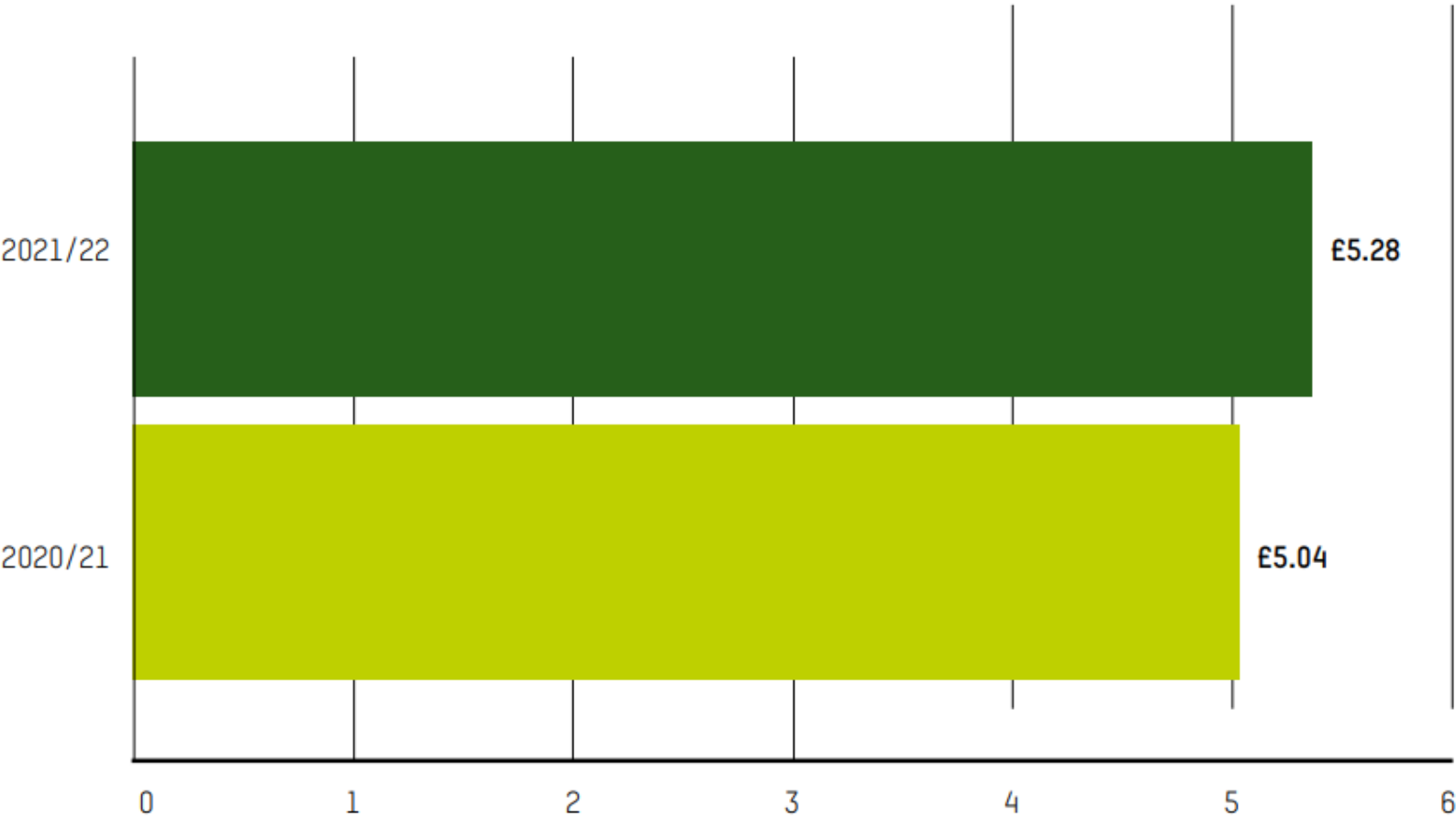
OXFAM

Expenditure £26.1m

x5.3

OXFAM TRUSTEES' ANNUAL REPORT 2021/22

Costs to raise income
Funding raised per pound spent



FUNDRAISING

...Face-to-Face

Direct mail

Public fundraising

Legacies

Trustees with networks of contacts

Trading subsidiaries

Charity shops...

DOGS TRUST ANNUAL REPORT 2021

Fundraising contribution

	2021	2021	2021	2020
£000s	Voluntary	Trading	Total	Total
Income	105,981	6,678	112,659	103,115
Costs	22,771	5,410	28,181	23,758
Net contribution from fundraising	83,210	1,268	84,478	79,357



So Disney can make a new \$200m movie that flops and nobody calls the Attorney General. But you do a little \$1m community fundraiser for the poor, and it doesn't produce a 75% profit to the cause in the first 12 months and your character is called into question. So nonprofits are really reluctant to attempt any brave, daring, giant-scale new fundraising endeavours.

Dan Pallotta, TED Conference

Taking risk on new revenue generation ideas

AGE UK FUNDRAISING CHARTER



[Find your local Age UK](#) | [Contact us](#)

[Please donate](#)

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[Home](#) / [Get involved](#) / [Fundraise](#) / Fundraising charter

Fundraise

- [The innocent Big Knit – get knitting for charity](#)
- [Sporting events](#)
- [Fundraising ideas](#)

Fundraising charter

At Age UK the national charity, we have developed our fundraising activity with our donors and older people in mind. Anyone who is kind enough to consider supporting us can be reassured that:



So Amazon went for six years without returning any profit to investors, and people had patience. They knew that there was a long-term objective down the line, of building market dominance. But if a nonprofit organisation ever had a dream of building magnificent scale that required that for six years, no money was going to go to the needy, it was all going to be invested in building this scale, we would expect a crucifixion.

Dan Pallotta, TED Conference

Time



But we don't like to see our donations spent on advertising in charity. Our attitude is, 'Well, look, if you can get the advertising donated, you know, to air at four o'clock in the morning, I'm okay with that. But I don't want my donation spent on advertising, I want it to go to the needy.' As if the money invested in advertising could not bring in dramatically greater sums of money to serve the needy.

Dan Pallotta, TED Conference

Advertising and marketing

A DANGEROUS QUESTION?

What percentage of my donation goes to the cause versus overhead?

Recommendations

- Developing and explaining a fundraising strategy to justify expenditure will show how the charity expects to fund its work
- Fundraising strategies will have to consider economic realities such as the cost of living crisis and inflation
- Investment in ethical fundraising practices and data protection is critical to foster long-lasting relationships with supporters

Further viewing

https://www.ted.com/talks/dan_pallotta_the_way_we_think_about_charity_is_dead_wrong

Thank you

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Dispelling common myths about charities: Overheads

July 2023

Naziar Hashemi, Head of Social
Purpose and Non Profit, Crowe UK

The OVERHEAD myths campaign – letter to donors

An open letter to charity donors says:

“We write to correct a misconception about what matters when deciding which charity to support.

The percent of charity expenses that go to administrative and fundraising costs—commonly referred to as “overhead”—is a poor measure of a charity’s performance.

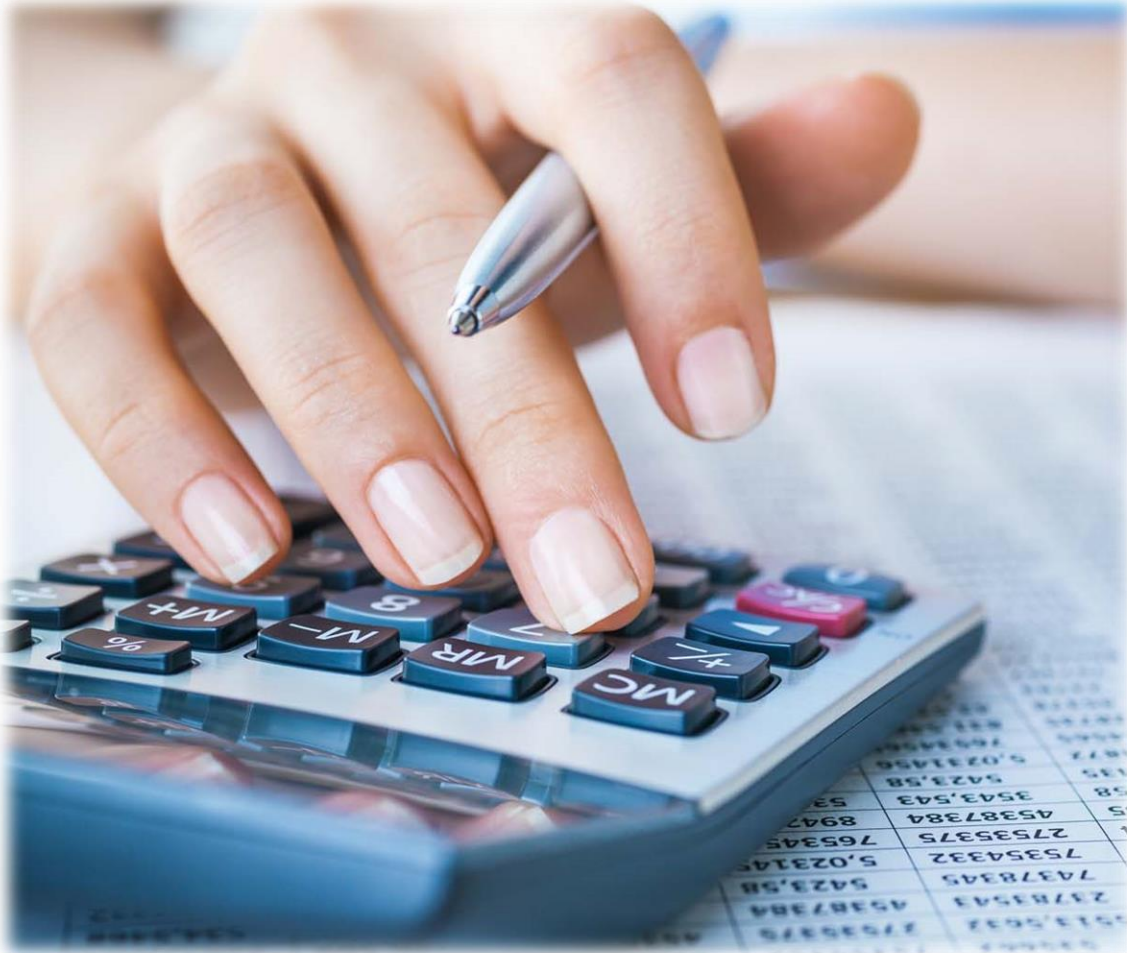
We ask you to pay attention to other factors of nonprofit performance: transparency, governance, leadership, and results”.



Understanding overhead aversion

- 40,000 donation letters sent out and asked for donations of \$20, \$50, or \$100 towards a new project
- “Control” group, only received information about the foundation’s new educational initiative
- “Seed” group, were also told a private donor had seeded a \$10,000 donation
- “Match” group, were told that a donor had offer to match every dollar given to a total of \$20,000
- “Overhead free” group, were told that a donor had granted to cover all overhead costs of the project

Overhead ratios



“If I see a charity with a worse cost ratio than ours, I know we are more cost effective.

If I see a charity with a cost ratio better than ours, I know they have a more creative accountant”

Experienced Finance Director

Charity Commission:

“Trust in charities – How to inspire in the years ahead” - 2022

- Lingering doubts
- Pro-active transparency
- Demonstrating impact

“As donors and supporters feel the pinch, their expectations of efficiency and effectiveness in charities is only going to increase. Charities, I expect, will come under ever more intense scrutiny as to how they set their priorities, how they use their resources, and the difference they make.

One crucial answer to this, which you contribute to directly, is transparency, notably around financial matters. You play a key role in ensuring your charities report accurately, clearly, in line with requirements and in a way that promotes public understanding and confidence.”

Orlando Fraser – ICAEW Charity Conference January 2023

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1089469/Charity_Commission_Public_trust_in_charities_2022.pdf

Dispelling the myth

- Is there real organisational understanding of cost structure and true costs?
- How accurate is the budgeting and management reporting process?
- How effective is the organisation at communicating the true costs of managing and running programmes/contracts and negotiating with donors and funders?
- How do we assess what funding/contracts to turn away or accept if they don't cover all costs?
- Do we assess our efficiency and effectiveness?
- Do we benchmark our charity against others?
- Do we capture our outcomes and impact and communicate these?
- What metrics (pie charts) do we use to show impact?
- Do we communicate effectively with all our stakeholders?

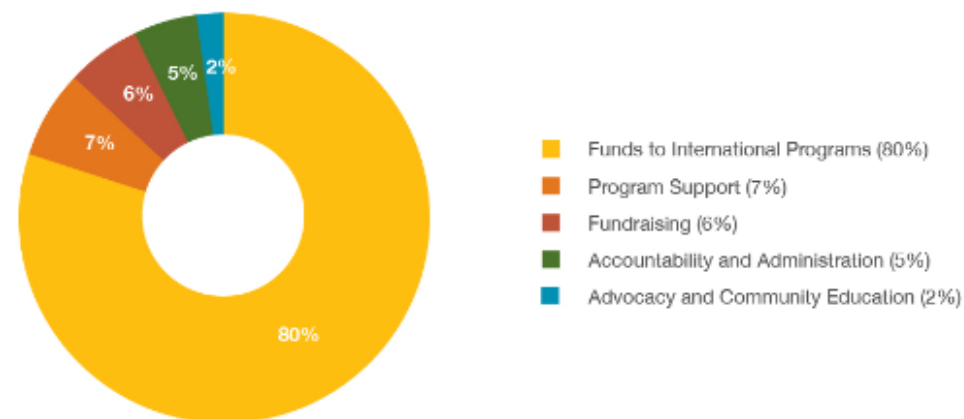
Care Australia - where the money goes

The impact of your investment

In 2021/22, CARE Australia spent:

- **89% of total expenditure on our development, resilience and humanitarian programs**, including education programs in Australia to raise awareness of poverty overseas
- 6% of total expenditure to raise future funds
- 5% of total expenditure on accountability, administration and our talented people.

The impact of your investment in 2021/22



A charity with full disclosure on money spent

Funds to International Programs includes Development and Resilience Programming, which are the funds we invest in supporting local communities to run long-term development programs, the logistics required, and the costs of expert programming staff to ensure the impact is maximised. Also in this category are funds spent on Emergency and Humanitarian Action which are the lifesaving measures taken to support women and marginalised groups to anticipate, prepare for, respond to, and recover from natural disasters, conflicts and economic shocks. It includes disaster readiness and risk-reduction measures like training and prepositioning of supplies, support given to people in times of crisis, as well as the logistics required, and the costs of expert humanitarian staff to ensure the impact is maximised.

Program Support includes the experts and advisors who deliver training, guidance, oversight, and evaluation of project initiatives and urgent emergency action by CARE Australia, as well as the costs of staff who are employed by the CARE International confederation to more cost-effectively provide services and expertise to all of its members — all in the name of maximising impact for the women we work with.

Fundraising is how we secure donations, grants, and investments from long-term supporters. It covers the costs of our expert fundraising staff, our efforts to acquire new donors, and the provision of supporter care services — all of which help ensure our critical programming and advocacy can continue into the future with as much impact as possible.

Accountability and Administration refers to many of the costs required to ensure CARE Australia remains a strong, innovative and accountable organisation with a team capable of achieving our goals. This includes investments in infrastructure, technology and cybersecurity, human resources, finance and accountability, quality assurance and risk management, as well as the costs of our key leadership, administrative and support staff — in effect, the costs of ensuring that we operate in impactful and effective ways.

Advocacy and Community Education supports local partners to tackle inequality at a community level as well as petition for change. It also ensures members of the public in Australia and around the world are aware of social justice issues and the ways to overcome them, and are able to do their part.

Care Australia – full disclosure

A charity with low administrative costs

We work as hard as we can to get as much value out of every dollar we spend — and we spend them very wisely: on building strong and trusting partnerships with local organisations where there is mutual respect, shared values and a joint mission of working to overcome all of the reasons that keep women in poverty.

And our fundraising and administration investments are extremely important – our expert staff, strong accountability measures and computer infrastructure are critical investments and all contribute to a better organisation and better aid outcomes.

Reach and spend are important indicators of efficiency, but to show true impact, we complement these with other measures which show real, positive and lasting change to women and their communities. Read our full [annual report](#) for some inspiring stories of how your donation is having an incredible impact.



Marie Curie Cancer Care



Frequently asked questions

How does my money help?



Why do you spend money on research?



Why do you spend money on policy and public affairs work?



Do you spend money overseas?



Can I make sure my money is spent in a particular area or on a particular service?



How do I know you will spend my money effectively?



We have been providing care and support for people with a terminal illness for more than 70 years – we were founded in 1948, the same year as the NHS. As well as the people we care for and their families, our thousands of supporters place huge trust in us, as one of the UK's largest and best-known charities. We are determined to repay them by using their money to help as many people living with a terminal illness and their families as we can.

We've committed to [six promises](#) to you about how we raise money and communicate with you. And we pay great attention to ensuring that we are working in the most efficient and cost-effective way. Each year, we set out:

- exactly how all our money is raised and spent, in our [annual report and accounts](#)
- the difference your support has made, in our [impact report](#)
- how the care you are funding meets high standards of quality, in our [quality account](#)

We would love to hear from you if you have any comments or questions about our work and how we raise and spend our funds. You can contact us on 0800 716 146 or supporter.relations@mariecurie.org.uk



Thank You

Naziar Hashemi

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Questions?