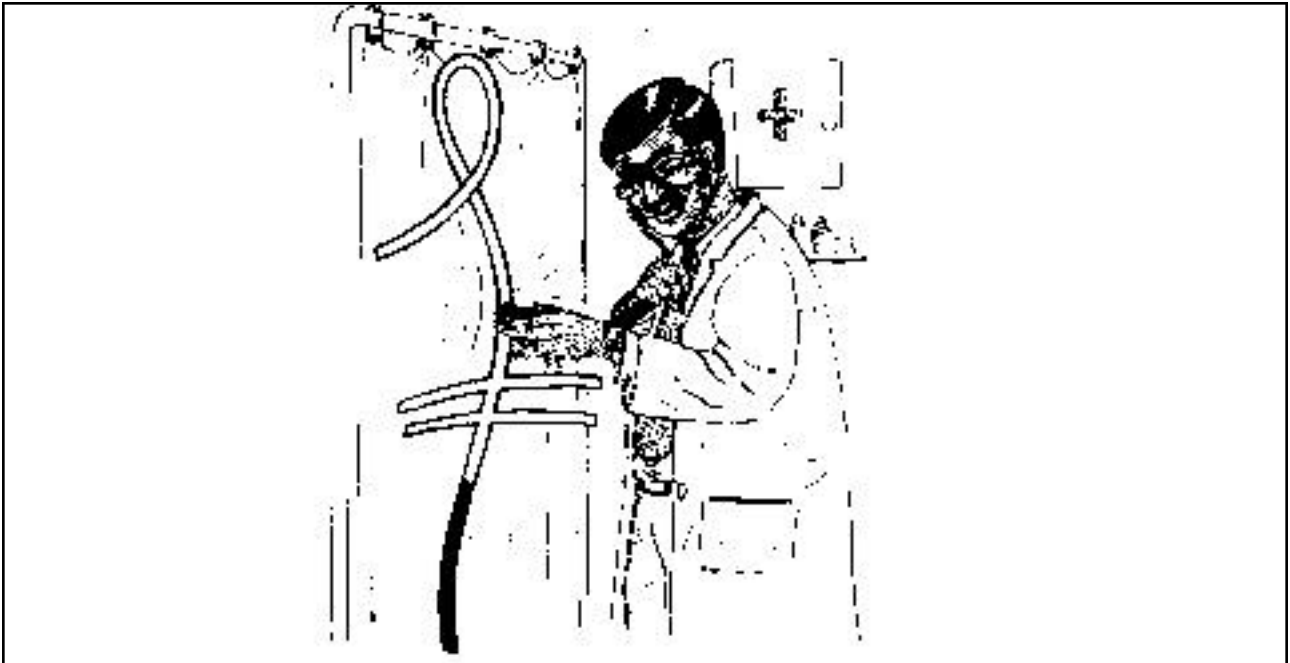


CASHFACTS

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Financial health checks

Voluntary organisations need good financial systems to avoid running out of money and to avoid allegations of fraud. Good financial systems enable the charity to spot problems quickly and adjust activities to maximise the effectiveness of their funding.

Poor financial systems can exist for a number of reasons. In small organisations it may be that this area has never received any real attention. The volunteers who run the charity may have focused their efforts on the main task of the charity - such as arranging summer holidays for disadvantaged children - and no one has ever had the energy to sort out the bookkeeping on a regular basis.

Financial papers are given to the Independent Examiner every year who "sorts it all out".

This type of approach is fraught with risk. It is easy for money to be misappropriated. Twelve months after the event pieces of paper are often missing and verbal explanations have to be given which are frequently little more than guesses. Funders, understandably, would be unhappy if they knew that there was very little control over the finances - and they could withdraw their funding. People with grievances can make allegations to funders - true or false - about poor financial management and fraud.

Large organisations

In larger organisations financial health checks are useful because staff may not have relevant training or may not be aware of the specialist accountancy needs of voluntary organisations. The charity might have expanded over time with no one focusing on whether the financial systems have been strengthened to reflect the greater demands being placed on them.

Check ups

An occasional check is a very good way of ensuring that staff are working well. Lax conditions often arise when no one appears to be interested in a particular area of the organisation. Anybody with common sense could be asked by the committee or manager to undertake a financial health check. We have detailed below the main topics that should be covered.

Objectives

Read the objectives of the charity in the constitution and check that the activities and fundraising applications fall within the stated objectives. If there is a problem it may be necessary to revise the constitution or change the activities of the charity.

Achieving outputs

Is the charity doing what it is being paid to do? Ask for copies of all the funding agreement application forms and letters applying for funding. Make a list of the services that the charity has agreed to provide and a list of what has been provided. What do you still have to provide? Can it be done within the time provided for in the funding agreements?

Budgets

A budget should be drawn up before the start of each financial year and approved by the management committee. If events are significantly different from those forecast then the budget may need revising during the year.

Management committee

The committee needs a report at least every three months comparing income and expenditure with the budget. This helps to ensure that the charity does not over spend and run out of money during the year.

Trustees

The organisation should have a competent active treasurer and trustees should be aware of their financial responsibilities as detailed in Charity Commission leaflets CC3/CC3a.

<http://www.charitycommission.gov.uk/publications/cc3.asp>

and

<http://www.charitycommission.gov.uk/publications/cc3a.asp>

Cash expenditure

Cash income - coins and pound notes - and cash expenditure are the areas where voluntary organisations have the most difficulty. Months after an event organisations can be totally baffled as to how money was spent, or what the total amount of income and expenditure was. Payments by cheque are much simpler because copies of cheques can always be obtained from the bank.

Cash expenditure should be kept to a minimum. If it exceeds £100 a month in an organisation with a turnover of less than £30,000 consideration should be given to what payments could be made by cheque in future.

Petty cash

There should be a lockable cash tin and an account book (or separate page in the bank analysis book) in which details of all cash transactions are recorded.

An impress system should be used. This means the organisation has a float of cash - say £100. When the majority of the money has been spent, say £78.27, the float is topped up again to the original float of £100 by cashing a cheque for £78.27.

CASH recommends this system because errors are easily spotted and people can be asked to find missing receipts - bus tickets etc. - or explain why the tin is short of money. For each payment there should be a voucher signed by the person receiving the money and by the person authorising the expenditure. Check that the vouchers and the cash in the tin add up to the level of the float. If they do not, ask those who have access to the cash tin for explanations. The petty cash book should be balanced with the tin and signed at least once a week.

If an impress system is not used check that the cash paid into the tin equals the expenditure plus the remaining cash in the tin. Start from when the petty cash was last balanced or from the start of the financial year. As with the impress system there should be a receipt when ever

possible and signed vouchers for all expenditure. If checking is a long job or it does not balance consider whether an impress system would be better.

How many people have access to the petty cash tin? If this is more than three people consider if this is really necessary or whether there should be more than one float?

PAYE & Schedule D

If the organisation pays staff then they should receive a pay slip with tax and national insurance deducted. The main form for calculating deductions is the P11D. A small sample of these forms should be checked. People who are not paying tax or national insurance must either be below the national insurance threshold and have signed an Inland Revenue form P46 indicating that the work is their only job, or have given the organisation a Schedule D number to prove that they are registered with the Inland Revenue as self employed.

Reserves

The Charity Commission advises charities to have a written (See CASHFACTS: Reserves policy). This should cover the funding required to bridge the gap to a new source of funding or allow for an orderly winding up of the charities affairs should this become necessary. Typically a charity might plan to have reserves of between 15% and 25% of annual expenditure.

VAT and corporation tax

Is the charity liable to pay these taxes? The Customs and Excise website give more information.

Fundraising strategy

Has the organisation identified adequate sources of income for the next twelve months and does it have a fundraising strategy covering the next three years? Are there enough current fundraising applications taking into account that they will not all be successful and typically it will take four months for an application to be approved or longer for the monies to be drawn down?

Financial controls

Is there a written set of rules covering who can sign cheques etc. (See CASHFACTS: Financial Controls). Do they need to be revised?

Computerised accounts

Is the system functioning well and better than a manual system? Are regular back-ups made of data?

Insurance

Does the charity have public liability - and if relevant - office contents, employer's liability and vehicle insurance. Consider what other insurances might be needed and whether the amounts covered are high enough. (See CASHFACTS: Insurance Policies)

Pensions

Is there a staff pension scheme, or should fund raising budgets be designed to include the introduction of a pension scheme? (See CASHFACTS: Pensions).

Staff loans

Ask if there are any loans outstanding to individuals. Generally this is not good

practice, but loans are sometimes made for annual season tickets. There should always be a written agreement allowing the loan to be repaid through deductions from salary.

SORP

Is the organisation able to produce estimates of expenditure on:

- Direct Charitable Activities
- Management and Administration
- Fundraising.

Can the organisation identify restricted income and charge relevant expenditure to that income? You need to be able to identify expenditure against projects. This can be a simple mechanism - such as photocopies of payslips, invoices etc in the appropriate funder's file.

Stock control

Does the organisation hold significant stocks of items for resale such as books, or are there large amounts of office stationery etc? Bearing in the mind the cost of administration, would it be wise to introduce a stock control system?

Fixed-asset register

Is there a list of the assets owned by the charity with details of cost, depreciation policy, serial numbers and where stored? Typically this list would cover items valued at £100 or more. Is it accurate?

Action plan

Now write a plan with a timetable for rectifying any weaknesses.

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