

## 5. Financial Issues

### Introduction

This information sheet gives brief guidance on finance and related issues for voluntary organisations. Proper financial procedures can help to avoid any difficulties concerning the handling of payments and the receipt of cash or cheques for the organisation.

### Bank Accounts

All of the major banks or building societies should open accounts for voluntary organisations subject to the completion of their paperwork and the provision of identification for those who will operate the account. However, it is worth spending a bit of time to find out what, if any, charges might be levied for operating the accounts and what interest will be paid in respect of credit balances.

You should also decide whether you want an account operated via a passbook system or one with a chequebook and paying in book. The latter is usually easier in terms of making deposits and writing cheques out.

Accounts should be opened in the name of the organisation and not in the name of any particular member of the organisation, even if he or she is the Treasurer.

It is quite likely that the bank or building society will ask to see a copy of the organisation's constitution before they will open an account. (See the information sheet on Constitutions)

### Signatories

It is good practice to ensure that withdrawals can only be authorised by a minimum of two people signing together. It is usual to give the bank or building society instructions to accept **any two** of three or more signatories. There will be special forms for this called "mandate" or "signing instruction forms."

It is **not** good practice to have two people who are connected in some way able to sign on the account.

If you intend to seek funding, grants etc, then it will almost certainly be a requirement that a bank or building society account is open in the name of the organisation and that withdrawals have to be signed by a minimum of two people.

### Treasurer

Normally, one person is appointed as the Treasurer of an organisation and will be one of the people who can sign withdrawals on the account. The Treasurer is responsible for dealing with the day-to-day receipts and payments and for ensuring that adequate records are maintained.

Records can be maintained in a ledger, on a computer spreadsheet or by using a specialist accounts program. Whatever system is chosen it should be capable of indicating the current balances in the account(s) and be able to show a breakdown of the income and expenditure under headings appropriate for the organisation.

The system should also be able to give information concerning the actual financial performance when compared to the agreed budget and some sort of computerised system is usually the best in this respect.

Computerised records should be backed up at regular intervals in case of data loss.

## **Annual Accounts**

For unincorporated charities i.e. not companies, there are two ways in which annual accounts may be prepared – receipts and payments or accruals.

The simpler one is on a receipts and payments basis. You may use this method, if you have a gross income of £100,000 or less during the year. The account summarises all the money you have received and paid out during the financial year. A statement gives details of your assets and liabilities at the end of the financial year.

Accounts prepared on an accruals basis contain a balance sheet showing the charity's financial position at the end of the financial year, a Statement of Financial Activities (SOFA) during the year and sometimes an Income and Expenditure Account and explanatory notes. All incorporated charities with a gross income over £100,000 during the year must prepare their accounts on an accruals basis.

As well as producing the annual accounts the Treasurer should be able to give the other members of the organisation or management committee regular financial reports as required. It is good practice for the Treasurer to provide a finance report at each management committee meeting.

## **SORP**

This is the Statement of Recommended Practice, which is relevant to company charities that prepare their annual accounts on an accruals basis.

## **Audits and Independent Examination of Annual Accounts**

If your annual income is £10,000 or below you do not have to have your accounts independently examined unless your governing document says so.

If your gross annual income is above £10,000 but below £500,000 (and your total assets are below £2.8 million) then an Independent Examination may be undertaken in place of a full audit. Over £500,000 a full audit is required.

## **Budgets**

A budget is no more than a simple listing of the amounts that are likely to be spent on various items during a year and any income that is likely to be generated. The budget will demonstrate what, if any, external finance is required to enable the group to carry out its activities. It will also serve to highlight any changes that might arise during the year i.e. higher expenditure on certain items or lower than expected income and allow the Treasurer to make recommendations to the management committee as to how to address these issues.

It is important to ensure that all possible items of expenditure are included in a budget and that the amounts are reasonable. There is free software called "Budget Yourself" which will help you to prepare a budget. It is available from Funder Finder at [www.funderfinder.org.uk](http://www.funderfinder.org.uk)

## **Cash Flow Forecast**

Having prepared a budget it might be appropriate to produce a cash flow forecast. These seek to place a timescale on expected payments and receipts so as to predict what funds will be available to the organisation at any one time. A cash flow forecast will normally be prepared on a month by month basis by adding up all the expected expenditure for a month, deducting the expected income for that month and carrying forward the balance, either debit or credit, to the next month, when the exercise is repeated.

## **Business Plans**

Business plans cover much more than the financial position of an organisation. They set out how an organisation is going to achieve its objectives, what resources it has to do so and the risks that might be encountered along the way. Many funders will require sight of a business plan before agreeing to make funding available and it is a good idea to draw one up even if funding is not immediately required.

A business plan will normally include sections on the following:

**Summary**- a short, punchy summary of the plan, usually written when the other sections of the plan have been completed.

**Identification of the need** - the reason why an organisation has been set up, the beneficiaries, evidence of demand and the lack of existing provision.

**Activities and Services** - a summary of the activities and services to be provided including planned developments

**Resources** - organisational structure, staff, management, training and qualifications, premises and equipment.

**Marketing Strategy** - How and when the project will be advertised and marketed. How people will know about your services.

**Finance** - Budgets, cash flow forecast, funding strategy

**SWOT Analysis** - examine the Strengths and Weaknesses within the organisation and examine the Opportunities and Threats that it faces.

### ***More Information:***

#### **Charity Commission Publications**

CC8 Internal Financial Controls for Charities

CC14 Investment of Charitable Funds: Basic Principles

CC14 Charity Reporting and Accountancy: The Essentials

CC16 Receipts and Payments Accounts Pack (for non-company charities with a gross

annual income under £100,000)

CC17 Accrual Accounts Pack

CC20 Charities and Fund Raising

CC20a Charities and Fund Raising – a Summary

CC35 Trustees, Trading and Tax

CC61a Charity Accounts: The Framework

CC63 Independent Examination of Charity Accounts (for charity accounting periods that began before 27 February 2007)

CC63a Independent Examination of Charity Accounts 2007 (An interim revision of CC63 taking into account the changes introduced by The Charities Act 2006 on 27 February 2007)

OG43A1 Charity Income Reserves: An Overview

Accounting and Reporting by Charities: The Statement of Recommended Practice (SORP)

Guidance to Electronic Banking

*Some of the above publications are only available on the Charity Commission website*

**Community Matters Information Sheets (available from Community Matters and Community Matters Bucks)**

10. Reporting and Accounting by Charities

41. Money Matters

73. Treasurer's Duties

**Village Hall Information Sheets (available from ACRE and Bucks Community Action)**

Accounting for the Village Hall

Managing Your Hall Part 1

Maintaining Your Hall

*There may be a charge for information sheets, which are available to members and non-members from the above organisations*