

Financial Literacy - Introduction

CC3 Quote: Trustees have, and must accept, ultimate responsibility for directing the affairs of a charity, and ensuring that it is **solvent**, **well-run**, and **meeting the needs** for which it has been set up.

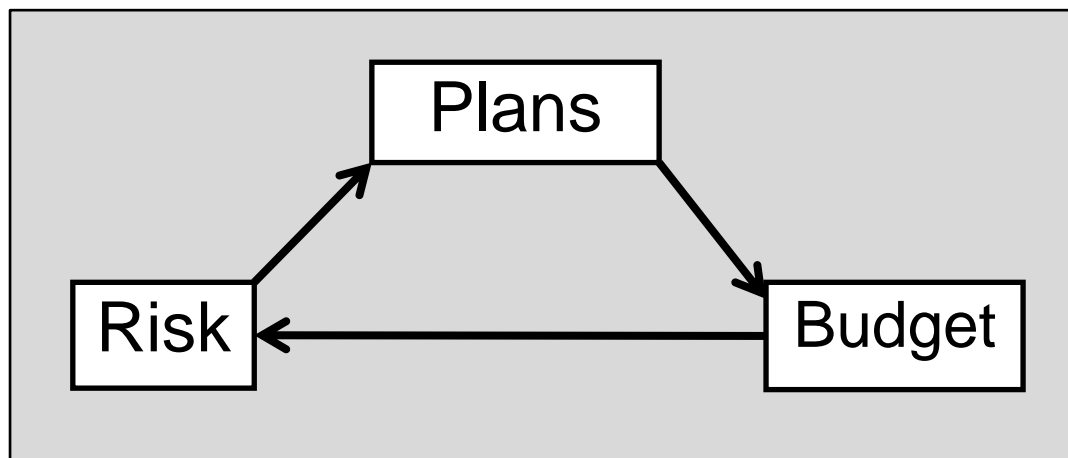
This responsibility has these financial aspects:

- Internal Controls
- Management Accounts
- Annual Accounts

Workshop covers the governance perspective.

Governance Context

- Trustees report annually on risk management.
- Risk review should be part of a charity's annual planning cycle - that can be simplified as:

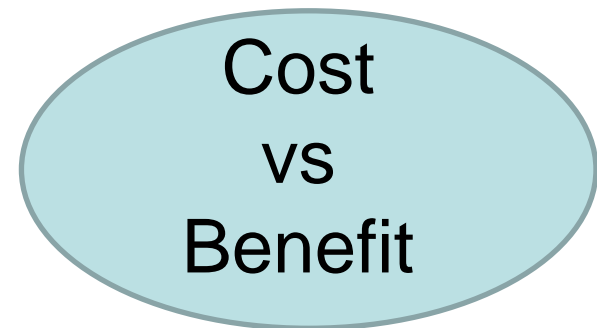


- Financial controls are the link between a charity's financial risks and its everyday processes.

Getting the Basics Right

Key Financial Controls:

- Bank Reconciliation
- Restricted fund monitoring
- Event monitoring
- Dual post opening
- Collection box procedures
- Cheque signatories/Bacs Sign off
- Wages sign off
- Limited supplier list
- Fixed asset register
- Passwords/Log ins
- IT back up
- Segregation of duties



Trustees Duties

All Trustees equally liable



Monitor Controls or be part of the controls
(Inc meeting with the advisors)

Management Accounts

Should:

- Be regularly produced
- Be timely
- Be scrutinised
- Be informative
- Highlight key variances vs budgets/business plan

Should NOT:

- Be overly complex
- Make assumptions of knowledge
- Irrelevant/unfocused

Cashflow & Forecasting

Cashflow planning leads to solvency & sustainability.

Simple in-year forecast:

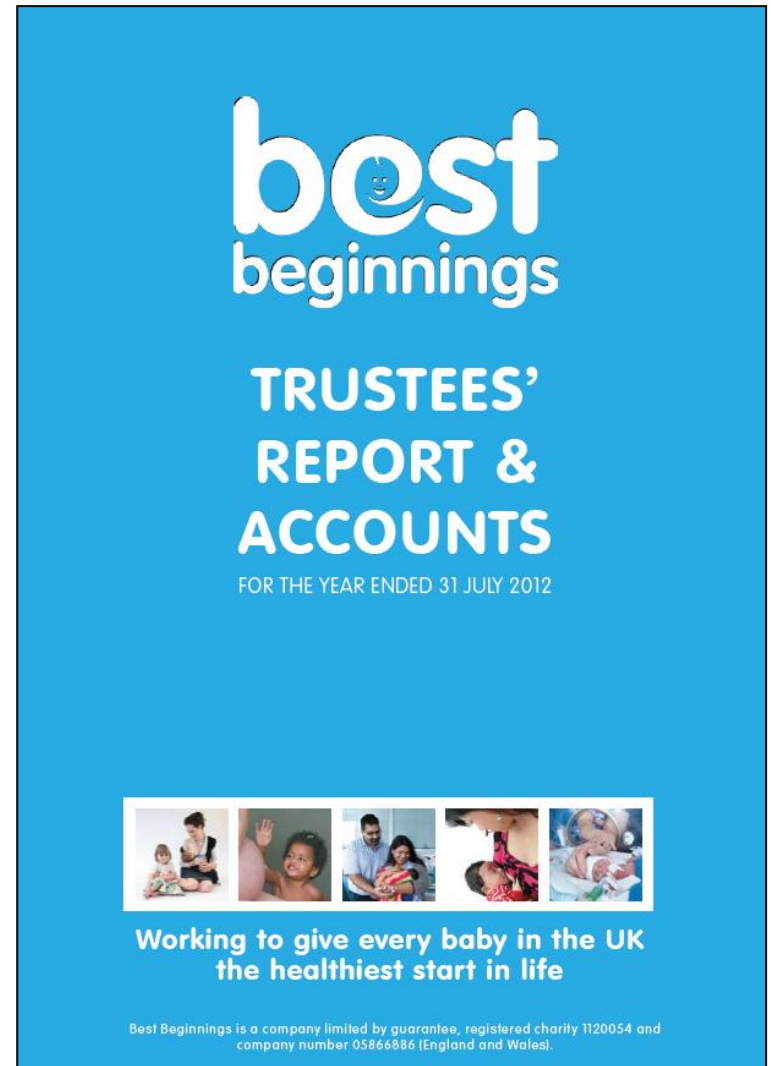
- Plot when income/spend estimated to fall due.
- Opening bank bal = 5; no debtor/creditors assumed.
- Adjust timing of income/spend to avoid deficit.

Mths ahead	<u>1</u>	<u>2</u>	<u>3</u>
Receipts	22	18	29
Spend	-20	-28	-24
Result	2	-10	5
Bank Bal	7	-3	2

- Cashflow planning: deficit warning & maintains reserves.
- Same model applies to annual projections for future plans.
- Sustainability = reserves + full cost recovery.

Job of an Annual Report

- Explains impact & numbers.
- Opening the funder's purse.
- Motivating/recruiting staff, volunteers & trustees.
- Track record inspires confidence in delivery.
- Displaying services to potential beneficiaries.
- Ensuring transparency & accountability: credibility reinforces public trust.



What Donors expect in a Report

Does annual report show what funders need:

- Well defined plans & sense of purpose?
- Clear set of achievable objectives?
- Do activities match the objectives?
- Same activities for words and numbers?
- Evaluation of results: making a difference?
- Adequate cash to complete planned work?

SOFA Cost Illustration

Mgmt Accts

SOFA

Income

Fundraising	120
Fees	130
Total	250

→ **Categorise** →

Generated Funds	120
Charitable Activities	130
Total	250

Expenditure

Salaries	160
Grants	65
Utilities	10
Total	235

→ **Apportion** →

Generated Funds	25
Charitable Activities	195
Governance	15
Total	235

Surplus 15

Surplus 15

Performance Ratio Example

Breakthrough 2011/2 (£k)		
Income	Voluntary Income	14,010
	Activities Gen Funds	2,581
	Investment	814
	Charitable Activities	641
	Other	31
	Total	18,077
Expenditure	Cost of Gen Vol Inc	6,218
	Cost Act Gen Funds	198
	Invest Mgmt	77
	Charitable Activities	13,043
	Governance	201
	Total	19,737
	Deficit	-1,660

Typical key indicators - partially declared to CC in Summary Information Return.

Fundraising Performance

16,591 - Income Generated

6,416 - Cost of Generation

Ratio = 2.6:1

Charitable Activity Cost

13,043 - Charitable Act Cost

19,737 - Total Expenditure

Ratio = 66%

Filing Shame?

- Web is part of CC 'File Early' campaign.
- Helps to form a funder's opinion of charity's credibility.

306288 - RUSSELL-COTES ART GALLERY AND MUSEUM **DUE DOCUMENTS RECEIVED** ⓘ

Financial history ⓘ

Year	Income (£m)	Expenditure (£m)
2009	~0.8	~0.8
2010	~0.8	~0.8
2011	~1.1	~1.1
2012	~1.1	1.38
2013	~0.9	~0.9

Compliance history ⓘ

Year	Annual return (months)	Accounts (months)	Due date (months)
2009	~5	~5	10
2010	~13	~13	10
2011	~27	~27	10
2012	~13	~13	10
2013	~5	~5	10

Financial summary ⓘ

Financial year end (FYE)	Income	Spending	Accounts received	Annual Return received	View
31 Mar 2013	£1,161,808	£1,161,808	30 Sep 2012	20 Sep 2013	Accounts SIR
31 Mar 2012	£1,384,748	£1,384,748	30 Sep 2013 (242 days late)	20 Sep 2013 (232 days late)	Accounts SIR
31 Mar 2011	£1,379,327	£1,379,327	30 Sep 2013 (608 days late)	20 Sep 2013 (598 days late)	Accounts SIR
31 Mar 2010	£1,138,609	£1,138,609	11 Jul 2011 (161 days late)	20 Jul 2011 (170 days late)	Accounts SIR
31 Mar 2009	£1,219,087	£1,219,087	10 Nov 2009	12 Nov 2009	Accounts SIR

Late = Red

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Take-away Points

- Build up adequate financial expertise.
- Awareness of particular financial risks.
- **Internal Controls:** relevant and proportionate; living - not paper; and periodically monitored.
- **Management Accounts:** timely & regular; reviewed against budget; and scrutinised.
- **Annual Accounts:** written for target readers; consistency of plans, delivery and numbers; demonstrates solvency and performance.
- **Financial literacy: are the right numbers right?**

Contact Us

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References

Charity Commission

- CC3 - The essential trustee.
- CC8 - Internal financial controls for charities.
- CC10 - The hallmarks of an effective charity.
- CC15b - Charity reporting and accounting: the essentials.
- CC26 - Charities and risk management.

Charity Finance Group

- Charity Fraud.
- Making It Count. Finance management for small charities.

WCVA. Managing Money information sheets