

Financial Management

Introduction

The secret of good financial management is to keep things simple, develop routines and get into good habits.

People sometimes worry that financial management will be a very complicated, difficult and intellectual process. But in fact the best financial systems are very simple and easy to follow. The more complicated the system, the greater the chance that something will go wrong or that someone will make a mistake.

Remember, the legal responsibility for financial management lies with every member of your management committee and not just the treasurer. Your management committee and members must know who is responsible for the financial tasks in the organisation and these should be clearly defined in your trustees' written roles and responsibilities.

If you have comments about the content of this toolkit, or suggestions for how we might develop it, please [contact us](#).

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Throughout this toolkit, you will find practical examples and templates to illustrate each area.

Acknowledgments

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Much of the content in this toolkit has been taken from the invaluable Refugee Council publication, *Doing it for Ourselves* (2003) – a step by step guide to setting up and managing an RCO. We would also like to thank the following organisations for allowing us to reproduce their copyright materials:

- [Community Accountancy Self Help](#) (CASH)
- [The Finance Hub](#) - see their [Introductory Guides](#) series for lots of free information and advice
- [The Resource Centre](#)

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Section one Financial controls

Financial controls are the written rules and procedures for financial control and management that all organisations should have.

Financial controls should cover, for example, who can sign cheques, who maintains the cash books, and how petty cash is administered.

Some of these rules will be laid down by the constitution (or, in the case of registered companies, memoranda and articles of association) and others may simply be unwritten understandings, or ways of working traditionally adopted by the management committee or staff of the organisation.

As a minimum your organisation should have the following internal financial controls in place:

- Cheque payments should require two signatures (or equivalent authorisation controls if making automated payment)
- If possible, two people should always open the post and count cash receipts
- Petty cash should be managed on an 'imprest system' (see Section 7 on Petty Cash)
- Bank accounts should only be opened by the management committee
- Personnel records should be kept by someone other than the person who pays salaries
- A fixed assets register should be maintained and (if applicable) a list of investments.

Section two Which accounting system?

Accounts can be simple or complex - it's usually best to keep them simple. Simple accounts are sometimes called 'cash accounts' or 'receipts and payments accounts'. This system only recognises money received or paid out when it takes place. The basic rule is: if it happened, write it down.

More complex accounts are sometimes called 'accrual accounts' or 'income and expenditure accounts'. Refugee community organisations that are set up as companies, or which are charities with an income over £100,000, have to prepare their annual accounts on this basis (see Section 10).

However, their books and records which they keep themselves during the year can still be kept on the more simple 'cash' basis.

Accrual accounts reflect not only what happened in a period (usually one year), but what should have happened in the period. For example, if you receive an electric bill the day after the year-end, in accruals accounting it would be included because the electricity was actually used before the year-end.

So, unless you like making things complicated, stick to simple cash based accounting for your own system. This toolkit assumes this will be the choice you make.

Section three Reserves

This content is adapted from information provided by the [Community Accounting National Network](#). All organisations should aim to have some money held in reserve. Organisations have been criticised in the past for accumulating too much in reserve and not spending it on achieving their objectives. For small organisations, however, finding enough money to create any reserves at all is likely to be a bigger problem.

What level of reserves?

There is no set figure, but it is widely accepted that the general or uncommitted reserves should be maintained at a level approximately 25% of your organisation's average annual expenditure. Some would say that this is the minimum, and that to have less is too risky.

Each organisation should consider its own situation:

- How secure is your future income?
- What is the value of your obligations under any contracts?
- How much would it cost you to close down?

Section four

Budgeting

A budget is the estimate of the income (receipts) that you hope to receive and the expenditure (payments) you expect to incur. Your organisation should draw up annual budgets for individual projects and events, and for overall activity each year. The annual budget is part of your plan for future activity and can also form the basis of your bookkeeping – day-to-day accounting.

As discussed in Section 2, simple accounting lists money spent and received. If you start by listing the items in your budget, along with either the cost or income associated with it, you can then track actual income and expenditure.

Budgeting process

1. Prepare the plan

List all the items you think will require money being spent. These might include rent, salaries and office costs. Keep capital costs (fixed assets like computers and office furniture) separate from running costs (ongoing expenses like salaries, postage and phone bills).

2. Fill in the figures

Consult as widely as you can to get accurate estimates about what will be spent and what income will be received.

3. Make notes

Explain how you arrived at your figures. That way you can revise the figures if your assumptions change.

4. Revise the figures

Show the draft budget to relevant staff, volunteers and trustees. Do they agree with your assumptions? Do you need more information?

5. Approval

The final budget will need to be discussed and approved by the trustees.

6. Monitoring and revision

As part of your ongoing financial management, keep track of the money actually coming in and going out compared to what is planned in the budget. Discuss this with the trustees so that you can take action if necessary.

Section five Cash flow

To make sure your organisation doesn't run out of money during the year, you need to break down the budget and forecast cash flow month-by-month. Like the budget, the cash flow forecast is a prediction of what will happen, and in order to be of use, it needs to be prepared before the beginning of the financial year for which it is intended.

Keep the same headings as in the budget and allocate income and expenditure to the appropriate month. For many of the headings, such as staff salaries or rent, this may be a simple case of dividing by 12, since the amount will be the same each month.

However, this will not be true in every case. For example:

- Grants are often received in instalments
- Telephone bills usually arrive every three months
- Your organisation may be more active in the summer months and less in winter
- There may be end of year costs associated with the preparing of independently examined accounts and annual reports.

The forecast allows your organisation to identify and plan for any possible cash flow problems.

Section six Bookkeeping

Bookkeeping means recording financial transactions in an orderly and systematic way. Bookkeeping is necessary so that information regarding the financial position of your organisation is readily available to the members, trustees and funders.

Cash books

Bookkeeping should require as few 'cash books' as possible. For most refugee community organisations only three books will be needed:

1. Cash received analysis book
Records and analyses all money (cash and cheques) paid into your bank account.
2. Cash paid analysis book
Records and analyses all payments paid by cheque.
3. Petty cash analysis book
Records the amounts withdrawn from your bank for petty cash use, and the payments made using that cash.

Paper records

Even if your organisation uses computer software for accounting, you must file one or more pieces of paper relating to every entry you make in the 'cash received' and 'cash paid' analysis books. It is crucial to have paper records because mistakes on computer software can be corrected and changes made without anyone knowing.

A common term that is used for paper records to explain each entry is 'vouchers'. Give each piece of paper you file away a reference number and use this number as the reference in your cash books.

Cross reference related items, for example, income that relates to a specific invoice. Keep your files in an orderly and logical way and make sure you keep other important documents such as minutes of management committee meetings, too. All charities must keep records for a minimum of six years.

Section seven Petty cash

Most organisations need to have a small amount of cash available to pay for day-to-day items. Even though the individual amounts might seem small, it's important to have clear rules for the use of petty cash.

Six rules for using petty cash

1. Limit use

Petty cash should only be used for a limited number of budget headings, and only where it is really not possible to use a cheque.

Cheques are much easier to trace, and therefore better for record-keeping.

2. Set a maximum

Set a maximum amount for payments by petty cash.

3. Keep cash box secure

Ideally one person should be in charge of the petty cash box, which should be kept locked and secure.

4. No loans

Petty cash should never be used to make short-term loans.

5. Stick to a system

Use a petty cash system such as [imprest](#) and stick to it.

6. Use vouchers

A petty cash voucher (books of vouchers are available at most stationers) should be completed and signed for every payment from the petty cash box at the time the cash is taken.

Section eight Bank reconciliation

Bank reconciliation is the process of comparing your cash book entries with your bank statement at the end of each month and explaining any differences.

The balance shown on the bank statement may not be the same as that shown in the cash analysis books, because, for example:

- There is a delay between the date the entries are made in the books and their appearance on the bank statements
- Some items on the bank statement may have gone unrecorded in the cash analysis book (such as bank charges, interest, standing orders, direct debits)
- Cheques issued by the organisation, particularly towards the end of the month, may not yet have cleared through the account, and therefore do not appear on the statement.

The main reason for the bank reconciliation is to make sure that your accounting records are complete. There may still be errors – you may have put something under the wrong heading – but at least you will know that you have recorded everything you should.

Without the bank reconciliation, there is a serious risk that your accounting records are unreliable.

Read the nine steps to follow for effective bank reconciliation, from [CASH-ONLINE](#).

Section nine

Finance reports

Every management committee meeting should be presented with a finance report. It should be clear, easy to understand and show the true financial situation of the organisation.

Trustees on the management committee are legally responsible for the organisation, so it's vital that they are kept up-to-date with the financial situation.

Your regular finance reports should include:

- A summary of the receipts and payment for the year to date, compared to the budget
- A written explanation of any significant differences between the budget and the actual figures
- A statement of what you have (your assets) and what you owe (liabilities) at the date of the report – this might be something complex like a balance sheet, or simply a list
- A cash flow forecast for the next 12 months, if you have one
- A written comment on what the past tells you and what the future may bring, so that the management committee can look beyond the numbers.

Section ten Annual accounts

Every charity, even if it is not required to register with the Charity Commission, must keep accounting records.

Accounting records include cash books, receipts, records of grants, and they must be retained for six years.

Every charity must prepare annual accounts and make them available on request. Apart from a few exceptions, every charity with an annual income above £5,000 is required by law to register with the [Charity Commission](#) and to produce a trustees' annual report.

Every registered charity with annual income or expenditure above £10,000 must submit a trustees' annual report, set of accounts, and an annual return to the Charity Commission each year. These must be sent or filed online within ten months of the end of the financial year. If you are a charitable company you must file your accounts at Companies House within nine months.

Your constitution or other governing document will usually require you to send the annual accounts and annual report to members and approve them at an annual general meeting (AGM). It is certainly good practice to do so even if you are not required to.

The type of accounts and report which your charity has to prepare depends on your legal structure, your income and the value of your assets. These are outlined, along with requirements for audits and annual reports in the full version of this section of the Financial Management toolkit.

Section eleven Glossary

Some common terms in financial management.

Accruals basis

An accounting procedure which relates all income and expenditure to the financial period to which it applies.

Assets

Money, goods and property which an organisation possesses.

Bank reconciliation

A procedure used to check the accuracy of your bookkeeping – and also to identify errors made by your bank.

Capital costs

Money spent on buying fixed assets such as office furniture or computers.

Capital grant

Money given specifically to buy fixed assets.

Creditors

People, companies or other organisations that are owed money by your organisation.

Debtors

People, companies or other organisations that owe money to your organisation.

Depreciation

A method of spreading the cost of a piece of equipment over the length of its useful life.

Designated funds

Unrestricted funds which have been allocated for a particular use by the management committee.

Endowment funds

Sometimes known as 'capital funds' this is a special types of restricted fund. The income from the capital can be used, but the trustees have no power to convert the capital into income.

Fixed assets

Items of significant value with a useful life of more than one year. For example, office equipment, land and buildings and motor vehicles.

General funds

Unrestricted funds which have not yet been allocated for a particular use by the management committee.

Liabilities

Amounts owed by the organisation on the date of the balance sheet.

Restricted funds

Funds received by the organisation for a specific purpose, stated by the donor, which cannot be used for any other purpose.

SORP

Statement Of Recommended Practice on Accounting and Reporting by Charities, approved by the Charity Commissioners for England and Wales. A charity does not have to follow the SORP by law, but will find it difficult to convince the Charity Commissioners that its accounts comply with the Accounting regulations if it does not.

Statement of assets and liabilities

A summary required for organisations preparing receipts and payments accounts. It is not the same as a balance sheet since non-monetary assets do not have to be valued.

Unrestricted funds

Funds held for the general purposes of the organisation, to be spent within the stated objects.

Section twelve Useful contacts

Some useful websites with information relating to financial management.

[CASH-ONLINE](#)

Financial advice for small charities and voluntary groups, published by Community Accountancy Self Help.

[Charity Commission](#)

The regulator for charities in England and Wales.

[Charity Finance Directors' Group \(CFDG\)](#)

Membership organisation promoting best practice in charity finance.

[The Finance Hub](#)

Making sense of funding and finance in the third sector.

[HM Revenue and Customs](#)

Responsible for collecting the bulk of tax revenue.