



Good Practice in Finance

**an easy reference booklet to help you understand and
manage your finances**

Understanding your finances is key to getting ahead. A well run financial system will contribute to the smooth running of your organisation and in doing so maximise efficiency and increase your performance. A financial system will not only help you manage your money on a regular basis but will help you plan for the future. Also, demonstrating to funders that you have sound financial practices will increase their confidence in you and as a result maximise your chances of funding.

But, understanding and managing your group's finance is no easy task. There are terms and expressions that may come naturally to finance managers and treasurers but make no sense at all to someone running a small group who is just trying to effectively manage money on a regular basis.

In this guide you will find:

- Advice on accounting packages
- Top tips for running managing your finances
- A list of common pitfalls to avoid
- A glossary of useful terms
- A list of useful sources of information

Managing your finances

You may want to consider what software packages are available to help you manage your finances. Both Quick Books and SAGE have a range of products but only some of these are suitable for voluntary organisations.

As a Voluntary and Community organisation you need to be able to keep books on a fund and project basis, and thus the bottom end packages from Quick books and SAGE aren't really suitable. Community Accountancy Self Help (CaSH) generally recommends Quick Books Pro as being the most cost-effective solution. SAGE Line 50 is recommended to groups that have a preference for SAGE programmes.

Although these are excellent packages for larger groups with a paid book-keeper, there are alternatives for smaller groups wanting to computerise their accounts. For smaller groups, Money Manager Business Edition (www.moneysoft.co.uk) comes highly recommended.

These sites may be useful in finding out more about both Sage and Quick Books but you may wish to seek advice from CaSH before committing to buy any package. As a registered charity you can also purchase software at greatly discounted prices. Visit Licence to Click to find out more:

Money Manager: <http://www.moneysoft.co.uk/>
Licence to Click: <http://www.licencetoclick.com/>
SAGE: <http://shop.sage.co.uk/>
Quick Books: <http://www.quickbooks.co.uk/>

Ealing Finance Workers Forum

This is an informal forum for treasurers and finance workers of local community and voluntary groups. It provides the opportunity to share good practice and to discuss financial issues of mutual or topical interest.

For more information please contact Paul Boielle (CaSH Community Accountant in Ealing) on 020 8280 2277 or email Paul on paul.cash@ecrc.org.uk .

TOP TEN GOOD PRACTICE TIPS

1. Keep proper financial records

For each transaction, record: date, amount, who with, what for

2. Identify in your records the source of funding for each transaction

and whether it is restricted or unrestricted

3. Keep analysis books which categorise incomings and outgoings using the same headings as your budget

Write these up regularly, not just at the end of each quarter or year

4. For every entry, file away a piece of paper explaining and justifying the entry

5. Cross reference everything ...

the entry in your accounts book to the cheque or paying in book number to the paper record in your file

6. Have a bank account in your group's name ...

and require 2 people to authorise each cheque or electronic funds transfer

7. Pay all monies received (whether by cheque or in cash) straight into your bank account

8. Prepare a budget each year ...

showing how you plan to spend your group's money and where you plan to get the money you intend to spend from

9. Compare what you actually spent and received with what you budgeted to spend and received

Do this regularly, before each meeting of your management committee and discuss the results at each meeting of your management committee

10. Build up reserves (uncommitted money in your bank account) to tide you over come the inevitable rainy day

The size of the reserves should reflect the risks you face

TOP TEN THINGS NOT TO DO

1. **Do not get the group's money mixed up with your own**
2. **Avoid paying for anything using cash, and never, large amounts (over £50)**
 - If you must pay in cash, always get a receipt
 - Make sure the receipt says what the payment was for
3. **Do not pay your volunteers round sums (that is, whole numbers of £s)**

Always insist on receipts justifying their expenses
4. **Do not treat people who do work for you as self employed, unless when working for you they can comfortably pass the HM Revenue and Customs "employed or self-employed?" test**
5. **Do not use cash income to pay cash expenses**
6. **Do not sign blank cheques**
7. **Do not have or use a debit or credit card for the group**
 - Never use the debit card to withdraw cash from an ATM
 - Using debit or credit cards not only breaks the two signatories rule but is also a serious breach of trust
8. **Do not use restricted income for anything other than its intended purpose**
9. **Do not leave it to the last minute to try and find an independent examiner or auditor for your group's end of year accounts**

You can expect to pay for this service. A realistic amount is between £250 and £500, depending on how good your records are
10. **Do not waste your and everybody else's time by applying for grants unless and until you have financial controls in place and you are keeping proper accounts**

Glossary of Financial Terms

Assets

Anything worth money owned by an organisation – including money, goods or property, including any legal rights it has to receive goods, services, money or property.

Audit

An examination of the accounts undertaken by a registered auditor. For 2006/2007, all charities whose gross income or expenditure exceeds £250,000 must have an audit. From 2007/2008, the limit is raised to £500,000. Note that charities below these thresholds may be required to have an audit by funders – especially local authorities.

Bank reconciliation

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

Balance sheet

A summary of the assets and liabilities of a charity on a given date – also describes the funds that are represented by the net assets. A balance sheet can be seen as a snapshot of the charity's finances.

Capital

The difference between an organisation's assets and liabilities. An organisation's capital is what it is worth, on paper, once it has paid all its debts and got all the money it is owed in. This will be made up of both its bank and cash balances and any land and buildings it owns, together with fixtures, fittings, furniture, office and other equipment and anything else it owns which can be turned into money. An organisation's assets, liabilities and resulting capital are what is shown on its Balance Sheet. A charity's capital is owned by its beneficiaries, not by its members.

Charities Acts

The 1993 and 2006 Acts of Parliament that regulate charities.

Computerised accounts

Commercial computer software packages that can be used alongside or instead of the traditional paper-based bank analysis books. Well known packages include QuickBooks and Sage. *Refer also to P2 of this document.*

Designated funds

Unrestricted funds which the trustees have set aside for a particular purpose.

Financial statements

The organisation's accounts including notes to the accounts and any other statements that need to be included.

Fixed assets

Assets that have a useful life of more than a year, e.g. a new computer (normally considered to have a life of three years). Charities are required to keep a fixed-assets register.

Governing document

A document setting out the objects and rules of the organisation. It may be called the constitution, the trust deed, the memorandum and articles of

association (for a charitable company), or in Scotland, the explanatory document or founding deed.

Gross income

All the income of the organisation during a financial year before adjustments are made.

Independent Examination

An examination of the accounts undertaken by an independent person. It is less rigorous than an audit, and the examiner does not need to be as well qualified as an auditor. All charities whose gross income or expenditure exceeds £10,000 but is less than the audit threshold must have an independent examination.

Liabilities

Amounts owed by the organisation at the time the balance sheet is drawn-up. The cost has been incurred, but the bills remain to be paid.

Objects

What the purposes of the charity are, written in legal terms, set out in a clause with a charity's governing document. Charities cannot do work outside their objects.

Overheads

Any costs not directly linked to running projects or activities, typically made up of office costs, rents and the salaries of managers and support staff.

Receipts and payments account

A summary of the cash transactions of the charity. The simplest form of accounts which can be used by small charities whose income is less than £100,000 a year.

Reserves

In principle, what is left in the unrestricted funds when all liabilities have been met. In practice, money set aside from any surpluses by the trustees to cover the risks it faces.

It is good practice for charities to have reserves, but too high a level of reserves can have a negative impact on fundraising.

Restricted fund

Income that must be spent strictly in accordance with a funder's conditions.

Statement of Recommended Practice (SORP)

The Statement of Recommended Practice (SORP) on accounting and reporting by charities which lays down how charity accounts must be prepared and presented.

Statement of Financial Activities (SOFA)

The SOFA summarises all sources of income and how that income has been expended, and brings together all the transactions of the charity, including any transfers of funds.

Total expenditure

All the expenditure made by an organisation during the financial year, before adjustments.

Unrestricted funds

Funds held for the general purpose of the charity – but they have to be spent within the charity's objects.

USEFUL RESOURCES:

WEBSITES:

Charity Commission publication CC8 - Internal Financial Controls for Charities

www.charitycommission.gov.uk/publications/cc8asp

Mango's Financial Management Health Check

<http://www.mango.org.uk/resources/healthcheck.asp>

Civicus Toolkit – Financial Control and Accountability

<http://www.civicus.org/new/media/Financial%20Control%20and%20Accountability.pdf>

The Good Financial Management Guide for the Voluntary Sector

<http://www.ncvo-vol.org.uk/publications/publication.asp?id=1478>

Directory of Social Change

<http://www.dsc.org.uk/>

CaSH Ealing

http://www.ealingcvcs.org.uk/development/index.php?page_id=25

CaSH website

<http://www.cash-online.org.uk/>

Ealing CVS Finance & Budgeting Policy Swap

http://www.ealingcvcs.org.uk/policy_swap/index.php?subject_id=8&doctype=

BOOKS:

A practical guide to Accounting by Charities A clear and jargon-free book packed with lively examples and sample accounts. ISBN 1 873860 95 1

A practical guide to financial management Written for charities, but equally applicable to all non-profit making organisations, this clear and user-friendly guide explains the principles of good financial management. ISBN 1 873860 84 6

Just about managing? This book is intended to help you manage in a planned, coherent way that will increase the effectiveness of your organisation. It covers many topics ranging from teamwork to training. ISBN 1 872582 86 9

Voluntary but not amateur* This book helps managers and trustees understand the legal requirements in maintaining a professional service. Subjects covered include leasing premises, employing staff and working with volunteers. ISBN 1

The Voluntary Sector Legal Handbook A guide to law concerning the voluntary sector. ISBN 1 900360 72 1

The above books are available to browse at the Ealing CVS in-house library. Please contact Alison Surtees for more details: 020 8280 2224 or email alisons@ealingcvcs.org.uk