

Rural Action Yorkshire

A guide to financial management

Financial management is more than keeping accounting records. It is an essential and integral part of organisational management and involves:

- Developing a financial strategy
- Developing a budget
- Establishing policies and procedures
- Monitoring financial resources
- Understanding and meeting the organisation's legal requirements

A well managed organisation will be able to safeguard its assets, manage risk, make sound decisions and protect the officers and governing officials from breaking the law.

This guide has been developed to provide useful information to anyone involved in the management of financial resources for a charity.

Benefits of financial management

Good financial management will help your organisation to:

- Make effective and efficient use of resources
- Achieve objectives and fulfill commitments to stakeholders
- Be accountable to funders and other stakeholders
- Gain the respect and confidence of funding agencies, partners and beneficiaries
- Gain advantage in competition for increasingly scarce resources
- Prepare for long-term financial sustainability.

Legal requirements

By law all charities must:

- Prepare and maintain accounting records
- Prepare and publish annual accounts
- Prepare and publish a Trustees Annual Report
- Make the accounts and Annual Report available to the public
- Declare the charitable status on all documents
- Submit the required documents to the Charity Commission annually.



Developing a financial strategy

Your finance strategy is a plan of how you will finance your organisation and its activities, what money you will need and where it will come from. Your strategy should describe how you intend to move from your current position to your intended position. Consider the following questions when developing a finance strategy:

- Where are we now?
- What are our plans for the future?
- How will we get there?
- Do we know what the risks are and how we will manage these?
- How will we manage the competing demands of spending against savings needed?

Having a strategy in place will give reassurance to the governing body that the financial activities are being carried out and are pursuing the interests of the organization. The charity trustees have a duty to ensure that the organisation's resources are only used to further the charity's objects, in line with the governing document and the business plan.

Setting a budget

The budget sets out the expenditure you plan to make and the income you expect to raise across a defined period of time (usually 12 months).

The starting point for developing the budget should be the previous years figures, focusing especially on the larger items e.g. staff, premises, insurance etc. It will rarely be the case that the preceding years figures can be adopted as a budget without adjustment though. The skill is in anticipating change and planning for maintenance rather than 'fire-fighting'. The budget will never be a perfect forecast but it will act as a guide and a check on income and expenditure throughout the year.

Regular reporting

Financial reporting to the governing body is a vital part of the management strategy of the organisation. The board members/trustees are collectively accountable for the conduct of the organisation and the finance reporting should be in sufficient detail for every board member/trustee to have a clear picture of the current state of the accounts in relation to the previously agreed budget for the year.

Setting policies and procedures

Charity trustees, are expected to be prudent in their actions to ensure that the charity is financially sound, therefore the governing body should ensure that there are proper controls in place to ensure money can be accounted for and not misused. The extent of the controls needed will depend on the size and scale of the organisation. The main practical issues are:

- What can/should the money be spent on?
- What are the arrangements for paying creditors?
- What are the arrangements for handling income and payments into the bank?
- Who has authority to sign cheques and other transfer documents?
- What are the arrangements for reimbursing staff and governing body members?
- What is the reserves policy?
- Who should receive bank statements?
- Who should prepare financial reports and at what frequency?
- What are the arrangements for independent examination or audit of the annual accounts?

Some of these issues can be presented as **policies** and others are more detailed statements of **procedures**. It is best to differentiate between the two although they may be presented in the same document.



Further help

Further support and guidance is available from the following organisations:

The Charity Commission – www.charity-commission.gov.uk
Provides advice and a wide range of services and guidance to help charities run as effectively as possible. The following publications may be of particular interest:

CC16 Receipts and Payments Accounts Pack

IER Independent Examiner's Report on the Accounts

TAR Notes Completing the pro forma Trustees' Annual Report

CC17 Accruals Accounts (Accounts pro forma and Completion Notes)

CC19 Charities 'Reserves'

Contact Rural Action Yorkshire

Rural Action Yorkshire (RAY) is an independent charity which works with local communities to improve the quality of life for all people living and working in rural Yorkshire.

We have further guidance documents available in relation to financial management:

Village Hall Information Sheet 17, Trustees roles and responsibilities

Village Hall Information Sheet 41, Accounting and village halls

We also have a Rural Community Buildings training module available which sets out reporting requirements and other important information for charities.

All of these resources are available free of charge to our members.

For more information, please call 0870 313 0270.

