

Managing money: An information sheet for small and emerging community organisations

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Introduction

The management committee or trustees if you are a registered charity, has overall responsibility for managing a voluntary organisation's financial affairs. Day to day responsibilities for finance may be delegated to an individual such as the treasurer, or an employee such as the manager or finance officer.

You should develop a financial policy (some basic guidelines) outlining financial management systems, procedures and internal controls to minimise risk to the organisation.

For further information
www.financehub.org.uk

What this means for you and your organisation

Why keep accounts

Financial accounting is an important part of accountability and transparency.

- A community organisation is responsible to a number of stakeholders for the money it receives and spends including, members, beneficiaries, funders, regulators (eg Charity Commission, Companies House).
- Funders will ask to see accounts as proof that the association is well run and will use any grant appropriately.

Maintaining accounts will also help your organisation:

- To keep track of money (e.g. to ensure that you have collected all the subs or to avoid paying a bill twice) and to know how much you have available to spend.
- To make informed decisions (e.g. past records will show whether a raffle or a stall at a local fete will raise the most money).
- To know how much of the money you have in *free* reserves and how much is *restricted* to delivering particular activities.

Your organisation's budget

A budget is a forward plan used to cost work and services. It lists expected income and expenditure, usually over a 12 month period. It should identify running (revenue) costs and capital costs separately.

All organisations want to know that they have the finances they need to meet expenses. For one-off activities this may be obvious, but cash flow forecasts are useful to project income and expenditure on a month by month basis. When funds are tight you may even need to forecast weekly.

Budget preparation

Some costs (e.g. rent) can be calculated with precision. Others will be estimates e.g. photocopying and transport.

Services and activities must be fully costed. You should include the direct costs for any given project, such as salaries and equipment, and a relevant share of overheads, such as rent and office costs. This is referred to as full cost recovery. Your local development and support agency can provide further information to help with this.

Budget control

Monthly or quarterly financial reports, known as management accounts, are an important tool for monitoring and forecasting your organisation's financial position.

Understanding how your money was spent in a month or a quarter will help you to renew and revise your budget and produce more realistic forecasts in future.

Monitoring the budget regularly will also enable you to deal with any difficulties (e.g. late payment of a grant; increased costs) as they arise.

Book-keeping basics

Book-keeping is the recording of all financial transactions. The system you use will depend on the type of accounts your organisation needs to produce and advice may be required from whoever is responsible for the audit or independent examination of your accounts.

- Be methodical: keep clear records of money received or paid out at the time. Do not rely on memory to write it up later.
- Ensure that any restricted funding and related expenditure is identified separately.
- Make sure that you have paperwork (e.g. receipts, invoices, grant claim forms, bank statements etc.) for any money received or paid out. Keep paperwork in number or date order. It will make it much easier to look through your records.
- Always record the full amount of cash you receive or pay out. For example, if you take in cash from a jumble sale and then use some of it to buy tea and coffee, you should record both the total taking and the cost of the supplies.
- Do not hold on to large amounts of cash; bank it as soon as possible.
- Check regularly that the cash in hand equals the balance in your cash book.

Checks and balances

All organisations need appropriate financial procedures and internal controls. Segregation of duties is important to avoid the risk of one individual processing a financial transaction from start to finish. References should be taken up for all staff and volunteers involved in an organisation's finances.

Examples of internal financial controls:

- Two people opening and recording the post (especially if receiving regular cash or cheques through the post).
- Two independent signatories for cheque payments.
- Authorisation procedures for purchasing goods and services.
- Restricted access to bank accounts e.g. management committee members and senior staff only.

Top tips

- Always keep notes about how figures have been calculated.
- Always keep the organisation's cash separate from your own.
- Ensure that the person responsible for book keeping is not also a cheque signatory.

The bank reconciliation

The bank statement provides a regular opportunity to check your records against those of the bank and deal with any mistakes.

Check off each item on the bank statement and take into account any cheques or last minute deposits which do not yet appear on the statement.

It is usual to present the bank reconciliation together with a statement of income and expenditure at management committee meetings.

Local development & support agencies

www.mvda.info
www.rcvda.org.uk
www.srcga.co.uk
www.teesvalleyrcc.org.uk