



Making Accounts Work for You

Thursday 22 March 2018

Presented by:

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Today's Briefing

1. Trustees' understanding of finance
2. The role of others
3. The accounting framework at a glance
4. The financial year - key dates and events
5. The fundamentals of budgeting
6. Understanding management information
7. Statutory accounts - what you need to know
8. Measuring financial performance
9. How useful are accounts for business planning purposes?



1. Trustees' Understanding of Finance



1. Trustees' Understanding of Finance

The common consensus



“We have a treasurer (or equivalent) who is very good, we rely on him/her to understand the numbers”



1. Trustees' Understanding of Finance

WRONG!

All trustees have a collective responsibility to understand the finances of their charity - most decisions have a financial implication



1. Trustees' Understanding of Finance

Legal Duty	It's Vital That You
Act in your charity's best interest	Deal with conflicts of interest
Manage your charity's resources responsibly	Implement appropriate financial controls Manage risk
Act with reasonable care and skill	Take appropriate advice when you need to



2. The Role of Others



2. The Role of Others

Who else needs an understanding of your charity's financial affairs?





2. The Role of Others

- ▶ Management Team
- ▶ Fundraisers
- ▶ Potential trustees
- ▶ Professional advisers and bankers



3. The Accounting Framework at a Glance



3. The Accounting Framework at a Glance

i) Filing Accounts and Annual Reports

Type of Charity	Charity Commission	Companies House
CIOs	Yes - Irrespective of income level	No
Incorporated Charities (under company law)	Yes - If income over £25,000	Yes - Irrespective of income level
Unincorporated Charities	Yes - If income over £25,000	No



3. The Accounting Framework at a Glance

ii) Annual Return

All CIOs and all other charities (whose income exceeds £10,000) must complete and file an annual return with the charity commission.



3. The Accounting Framework at a Glance

Types of charity accounts

Receipts and payment accounts	Can be used by non-company charities who have gross income of £250,000 or less
Accruals	All charitable companies and non-company whose income is over £250,000 must prepare accruals accounts



3. The Accounting Framework at a Glance

Audit or Independent Examination?

- ▶ Income over £25,000 (or where charity's governing document requires some form of external scrutiny) are required to have accounts independently examined or audited
- ▶ Income over £250,000 - examiner must be suitably qualified



3. The Accounting Framework at a Glance

Audit or Independent Examination

Independent Examination	If gross income between £25,000 and £1 million
Audit	Gross income over £1 million
Audit	Total assets exceed £3.26 million and income greater than £250,000



3. The Accounting Framework at a Glance

Independent Examination

A few things to think about:

1. Does your governing document allow an independent examination?
2. Do any of your stakeholders (mainly funders) require you to have an audit?
3. Would the loss of an audit provide less comfort to trustees?

I mentioned that the independent examination is a light touch approach compared to the audit process, summarised as follows:



3. The Accounting Framework at a Glance

Independent Examination

An examiner, in their report, is only required to confirm that no evidence has been found that suggests certain things have not been done by the charity. This form of 'negative assurance' is a more limited form of scrutiny. The examiner is not acting as an auditor and so is not required to plan their work, to identify fraud or to test the internal financial controls operating in the charity.



3. The Accounting Framework at a Glance

Independent Examination

In the examiner's report, the examiner is only required to provide a statement on specific matters that have come to their attention as a result of the examination procedures specified in the Directions made by the commission. This is a simpler requirement than that of an audit. An auditor is required to build up a body of evidence to support a positive statement of opinion on the accounts. In particular, an auditor is required to form an opinion as to whether the accounts show a 'true and fair view'.



4. The Financial Year

Key Dates and Events



4. The Financial Year Key Dates and Events

- ▶ Charity X has a 31 March year end
- ▶ Income < £1m and requires an Independent Examination
- ▶ Prepares quarterly management information



4. The Financial Year Key Dates and Events

Q1

1 April

30 June

- Preparation of previous year end accounts
- Independent Examination of previous year financial accounts





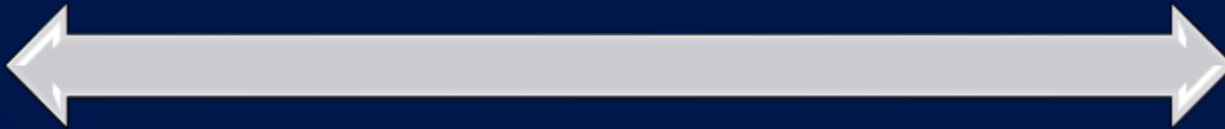
4. The Financial Year Key Dates and Events

Q2

1 July

- Quarter 1 Management Accounts
- Reforecast of year end position including cash
- Approval of previous year financial accounts

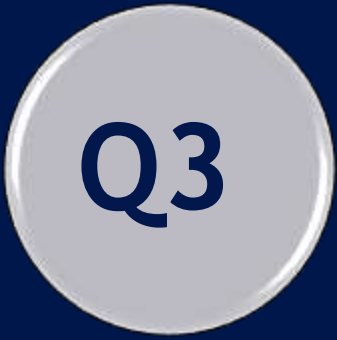
30 September





4. The Financial Year

Key Dates and Events



1 October

31 December

- Quarter 2 Management Accounts
- Review of 6 month position
- Reforecast of year end position including cash
- Budget assumption for following financial year agreed by Trustees
- Previous year financial accounts to be filed at Companies House by 31 December





4. The Financial Year

Key Dates and Events



1 January

31 March

- Quarter 3 Management Accounts
- Reforecasting of year end position including cash
- Budget for following financial year approved by trustees
- Previous year financial accounts to be filed at the Charity Commission by 31 January
- Charity Commission annual return to be completed by 31 January





5. The Fundamentals of Budgeting



5. The Fundamentals of Budgeting

What is a budget?

A budget is the financial description of an action plan outlining how you will use your money, based on knowledge and assumptions against which you will measure your actual performance.



5. The Fundamentals of Budgeting

Key questions to consider when developing a budget:

- ▶ What are our objectives?
- ▶ What activities will be involved in achieving these objectives?
- ▶ What resources will be needed to perform these activities?
- ▶ What will these resources will cost?
- ▶ Where will the money come from?



5. The Fundamentals of Budgeting

Questions to ask:

1. How much of the income is guaranteed?
2. Does expenditure follow the assumptions profile agreed by the trustees?
3. Does the budget incorporate any contingency?



5. The Fundamentals of Budgeting

Important to Remember

Cash is King so budgets should incorporate cash-flow forecasts



5. The Fundamentals of Budgeting

Control fundamentals

- ▶ How are we doing?
- ▶ How much of the budget is left?
- ▶ What will it look like at the end of the year?



6. Understanding Management Information



6. Understanding Management Information

- ▶ Financial management is a crucial aspect of any thriving charity
- ▶ To make good decisions management and trustees need good information
- ▶ Using, understanding and interpreting this information will help you make much better decisions



6. Understanding Management Information

Observations from my experience:

1. Too much information
2. Complex
3. Format never changes
4. A lack of understanding of the overall picture



6. Understanding Management Information

Things that should be included:

1. Actual v budget
2. Year to date position
3. Commentary on key issues
4. Year end re-forecast position
5. Cash-flow update
6. Anything else? E.g. KPIs

6. Understanding Management Information

The Big Question!



What format should financial management information take?

6. Understanding Management Information

The Answer!



It depends!!!



6. Understanding Management Information

Format of information to consider:

- ▶ What is it used for?
- ▶ Who are my audience?
- ▶ What are the key areas?
- ▶ Have there been discussions on what people want?
- ▶ Is it time for change?



6. Understanding Management Information

Format of Information

Top 5 Examples

1. The bog standard!
2. The more the merrier!
3. The lost in translation!
4. The meaningless!
5. The inaccurate!



6. Understanding Management Information

Format of Information

Think about using:

- ▶ Summary/KPI information
- ▶ Pictorial representation
- ▶ Different format for different audiences



6. Understanding Management Information

Examples
(See Handouts)

XYZ School - Variance Analysis
XYZ School - Summary of Key Financial Measures



7. Statutory Accounts



7. Statutory Accounts

What Do You Really Need to Know?

Example - Arts Theatre Trust



7. Statutory Accounts

Things to Note:

- ▶ They go on statutory record
- ▶ Monitored by the Charity Commission
- ▶ Seen by Stakeholders
- ▶ A marketing tool
- ▶ Need to comply with relevant accounting standards and company/charity law
- ▶ Charities SORP [FRS 102]



7. Statutory Accounts

The Basic Format

1. Trustees' Report
2. Auditors' /Examiners' Report
3. Statement of Financial Activities
4. Balance Sheet
5. Cash Flow Statement
6. Accounting Policies
7. Notes to the Accounts



7. Statutory Accounts

Trustees' Report

- ▶ Sets out the structure of the charity and how it is governed
- ▶ Tells the story of the year - is it consistent?
- ▶ Sets out the financial position - including reserves policy
- ▶ Risk management
- ▶ Arts Theatre Trust example



7. Statutory Accounts

Auditors' / Examiners' Report

- ▶ Looking for a clean bill of health
- ▶ Auditors' report - true and fair view
- ▶ Examiners' report - negative assurance



7. Statutory Accounts

Statement of Financial Activities (SoFA)

- ▶ Essentially the charity's profit and loss account
- ▶ All income and expenditure analysed by fund
- ▶ Fund definitions - see handouts
- ▶ Total income - Arts Theatre Trust £1.662m
- ▶ Total expenditure - Arts Theatre Trust £1.807m
- ▶ Net for the year - Arts Theatre Trust (£145K)
- ▶ Funds carried forward - unrestricted v restricted



7. Statutory Accounts

Balance Sheet

‘A snap shot of a charity’s assets and liabilities at a given date’

- ▶ Definitions - see handouts
- ▶ Liquidity - Net current assets **IMPORTANT**
- ▶ What are our **FREE** reserves?
- ▶ Example - Arts Theatre Trust



7. Statutory Accounts

Cash Flow Statement

(only required if income over £500,000)

Explains movement in cash balance year on year

Key headings - cash used in operating activities

- investing activities

- financing activities

- ▶ A useful statement to explain the cash profile of a charity
- ▶ Example - Arts Theatre Trust



7. Statutory Accounts

Accounting Policies

The principal accounting policies adopted in the preparation of the accounts

- e.g - Depreciation rates
- Allocation of support costs

DO NOT GET BOGGED DOWN IN DETAIL HERE!



7. Statutory Accounts

Notes to the Accounts

- ▶ Some are notes to support the significant numbers and primary statements in the accounts
- ▶ Some are notes to ensure that a transparent picture of the charity is shown



7. Key Notes

Description	Arts Theatre Trust	
Income from donations and legacies	Note 4	£60k
Income from charitable activities	Note 5	£1.105m
Subsidiary	Note 6	£479k
Expenditure	Note 8	£1.484m
Support and government costs	Note 10	£152k
Staff costs/staff numbers	Note 12/ Note 13	£838k
Related parties	Note 14	-
Balance sheet items	Notes 17,18,19,20,21 ,23,24	-
Analysis of funds	Note 25	-



8. Measuring Financial Performance



8. Measuring Financial Performance

Measurements to evidence achievements in effective financial management





8. Measuring Financial Performance

1. Board of trustees agrees budgets annually
2. There are regular reports on accounts
3. There are accurate minutes of financial decisions and action to be taken
4. Financial policies and procedures are updated regularly
5. Ensure compliance with regulators; including HMRC, Companies House and Charity Commission



9. How Useful are Accounts for Business Planning Purposes?



9. How Useful are Accounts for Business Planning Purposes?

1. Trends (in year and historical)
2. Cash-flow (e.g. payment by results)
3. Reserves
4. Management accounts likely to be more useful
5. Be aware of accounting quirks e.g. recognition of income



9. Measuring Financial Performance

Accounts are an extremely important part of the business planning process:

- ▶ But accounts need to be accurate and therefore reliable
- ▶ Consider points above
- ▶ CASHFLOW - is fundamental

Questions



Contact

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Thank you for attending