



Do we Have an Effective Finance Function – Reporting to the Board?

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Charity management and responsibility is often split, ultimate responsibility remains firmly with the board of trustees and the organisation is run on a day-to-day basis by a management team made up of employees. As a result, it is vital that the board receive timely and accurate financial reports.

What is the remit of the finance function?

The key remit of the finance function, regardless of size, is to produce accurate and timely reports for wider management and the board themselves.

What information should be reviewed and why?

In order to understand what the numbers tell us, we need to understand both the 'performance' of the charity (over a certain period of time) and its 'position' in terms of assets and liabilities.

'Performance' is recorded in a 'Profit and Loss Account' – known as a 'Statement of Financial Activity' (SoFA). This will cover a certain period of time, commonly a month, quarter or year.

'Position' measurement is recorded on a 'Balance Sheet'. A balance sheet only gives a snapshot of the charity's finances as at the end of any given month or year end date, providing a summary of the assets and liabilities. The sum of assets and liabilities are represented by and equal to the charity's reserves.

'Reserves' are the total of the assets and liabilities at that point in time and are split between:

- Unrestricted (including any unrestricted funds which have been ring-fenced/designated, at the discretion of the board); and
- Restricted reserves (funds given by donors for a specific purpose).

Experience shows that some boards only look at performance reports, ignoring the balance sheet completely. This is fraught with danger, since the nature of accounting double entry is that performance can be manipulated by incorrect recording of performance data onto the balance sheet (usually in error, but it might point to evidence of fraud). 📌

Who do they report to?

Ultimately it is the board who need this information to ensure that they are providing adequate stewardship of the charity's assets, but it will be first used by the management team to inform the decision-making process and the general day-to-day running of the organisation.

This dual reporting can often cause financial reporting to be less effective.

What are the most effective methods of communicating financial information?

This will depend on the user (user group) and their needs and knowledge levels.

A financial report made up of purely numbers could leave the results open to individual interpretation (or misinterpretation), whereas a written report on the other hand can sometimes seem too long and overwhelming. Benefits of a written report can include explanation of the numbers, highlighting of the key points and gives less room for interpretation.

Another, often overlooked, financial report which is useful is a 'cash flow forecast'





➤ Often, this information is compared against our original expectations for the year ahead. Variance reporting can be useful to highlight areas where the performance is straying from our expectations and therefore requires further investigation to ascertain the reasons why.

Another, often overlooked, financial report which is useful is a 'cash flow forecast'. This attempts to map out the flow of future cash receipts and payments over a given future period.

It is very important for the finance function to communicate to the board what 'basis' the numbers are prepared under. Are they on an 'accruals basis' or 'receipts and payments basis'?

- Receipts and Payments Basis means that transactions recorded in the performance statement are only recording items that have been through the bank account.
- Accruals Basis is a more accurate position of reporting financial performance and position, since it takes into account known amounts of money due to or payable by the charity. In other words the performance and position statements include all expenses and liabilities which have been incurred but not yet paid.

The performance and position of the charity can look dramatically different under the above two methods. Without knowing the basis of preparation, the conclusions reached by the board and management team could be fundamentally wrong.

Are there any other points to be considered?

Good management information should flow from the accounting software and the charity's finance team with as little human intervention as possible. Inevitably the more something is manipulated, the higher the risk of error (or fraud) and the greater the time cost.

New software solutions from the accounting software providers are becoming more intuitive and automated.

If you would like to gain our input and expertise, helping you to assess or provide any further support required, we would be delighted to discuss any points arising with you. Please get in touch with your local MHA member firm.



Checklist for the month

Often as board members rotate, the new trustees simply accept what has gone before and receive the same financial reports without question. We recommend that the following questions are considered:

- ✔ Is financial information readily available and up to date, or is it received several weeks following a month end?
 - What information is being received (performance and/or position)?
 - What is the basis of preparation (receipts & payments or accruals)?
- ✔ Do the management team and board understand financial information or is any form of training required (annual or one-off)?
- ✔ Is your current accounting software giving you what you desire in terms of the reports output?
 - Or does someone manipulate the data prior to sending the financial information to the board?
 - How much resource is required to keep the finances up to date – does this seem excessive?
- ✔ Do the board have a clear channel of communication with the auditor/independent examiner and are any auditor recommendations (from the annual audit feedback report) being actioned to improve financial accuracy?



Resources

There are lots of useful resources available online at the Charities Commission website.

As a starting point

✍ www.gov.uk/government/organisations/charity-commission/about/publication-scheme

gives a list of detailed guidance, known as their 'CC publications'.

There are a number of useful documents, including those particularly relevant to this article, including;

- CC12 – Managing a charity's finances
- CC15b – Charity report and accounting: the essentials
- CC19 – Charity reserves: building resilience
- CC26 – Charities and risk management