

Information Sheet: Financial Management and Accountability.

Introduction

Financial management includes two key areas of responsibility:

- Accountability – having clear policies and procedures around the financial decisions of the organisation, along with being able to account for income and expenditure; and
- Financial Planning – analysing the financial requirements and resources needed and setting/revising budgets, and projecting these into the future to ensure that organisation remains financially viable.

Requirements to Keep Accounts

Accounts in this context refer to summaries of financial information that is contained in the detailed records. These summaries are expected to be prepared in a standard format, which is specified in order to provide a picture of the organisation's current and projected financial position.

- Keeping accounts is a legal requirement in the case of charities (particularly where annual income or turnover exceeds £10,000), companies limited by guarantee, and for Industrial and Provident Societies;
- Accounts are generally required by funders, particularly those giving loans and grants, and help to convince other sources of finance (sponsors, donations) that the organisation is financially sound.

Legislation

The Companies Act 1985 sets out accounting requirements for companies (including charitable companies); the Friendly and Industrial and Provident Societies Act 1968 governs IPS, and unincorporated charities fall under the Charities Act 1993. The requirements vary and generally depend on the legal structure and level of turnover/income.

It is also a legal obligation to pay (where due) and keep records of:

- Deductions and statutory payments under PAYE for employees
- Value Added Tax (VAT)
- Income Tax and Corporation Tax

Financial Management

Legally, the governing body (Board of Directors, management committee, or charity trustees) are responsible for financial management and ensuring that funds are obtained and expended in accordance with the organisation's governing document and related policies. They are responsible even if they delegate the day-to-day aspects to a treasurer or other finance person. In addition to financial planning (including budgets and cash flows) they will need to:

- Consider whether a sub-committee (or equivalent) on finance is necessary to oversee day-to-day matters;
- Establish procedures to ensure that money can always be accounted for;
- Decide who should carry out banking, bookkeeping and record keeping;
- Determine what financial reports are needed (and who should prepare these) in order to manage the organisation.

Record Keeping

Keeping records (also termed accounts or books) of income and expenditure is called "bookkeeping", and must be backed up by relevant documentation such as invoices and receipts. Both must be retained for a specified number of years (6 years for registered companies), and be maintained in a systematic way (agreed with the auditor if one is appointed).

Records will include bank statements, "cash book(s)" which record all monies paid in/out, and where necessary records of PAYE, VAT, sales invoices, purchase orders and purchase invoices.

Computers and the use of spreadsheets can help with this process, but care should be taken to avoid a loss of accountability because changes and mistakes are difficult to trace and computer programs may not be suitable to the needs of the organisation. It is advisable to get advice from computer specialists and your auditor.

Management Accounts (Financial Reports)

A Management Account or Financial Report sets out information (normally on a monthly basis) that is useful for the governing body and general member's meetings to understand the financial position at any given time. It might include: -

- Statement of receipts and payments, which summarises the "cash book" showing receipts and payment and the balance;
- An Income and Expenditure Account, which is an adjusted version of receipts and payments showing how income or payments relate to specific periods of time;
- Comparisons with the budget to see the "variance" (how actual income/spend differs from the budget) and anticipate any problems
- Possibly the overall levels of debt and whether the organisation is solvent (Balance Sheet);
- Possibly other financial projections over the remainder of the financial year.

Preparing Annual Accounts

At the end of each financial year an organisation should prepare the annual accounts, which must be submitted to the appropriate register (Register of Companies, Registrar of Friendly Societies, Charity Commission)

- The form of the annual accounts should meet the requirements laid down in law, though usually comprise at least a Profit and Loss Account and a Balance Sheet.
- The organisation's Governing documents should set out the steps involved in preparing end-of-year accounts, but usually they are approved by the governing body, audited (if required) and circulated to members before the Annual General Meeting (AGM)
- The annual accounts, as part of an Annual Financial Report, must be presented to members at the AGM. They can then be submitted to the appropriate register by the due dates (10 months for companies and charities, 7 months for IPS).