FINANCIAL HEALTH CHECKS

Why do it?

Voluntary organisations need good financial systems to avoid running out of money and to avoid allegations of fraud. Good financial systems enable the charity to spot problems quickly and adjust activities to maximise the effectiveness of their funding.

Poor financial systems can exist for a number of reasons. In small organisations it may be that this area has never received any real attention. The volunteers who run the charity may have focused their efforts on the main task of the charity – such as arranging summer holidays for disadvantaged children – and no one has ever had the energy to sort out the book-keeping on a regular basis. Financial papers are given to the Independent Examiner every year who "sorts it all out".

This type of approach is fraught with risk. It is easy for money to be misappropriated. Twelve months after the event pieces of paper are often missing and verbal explanations have to be given which are frequently little more than guesses. Funders, understandably, would be unhappy if they knew that there was very little control over the finances – and they could withdraw their funding. People with grievances can make allegations to funders – true or false – about poor financial management and fraud.

Large organisations

In larger organisations financial health checks are useful because staff may not have relevant training or may not be aware of the specialist accountancy needs of voluntary organisations. The charity might have expanded over time with no one focusing on whether the financial systems have been strengthened to reflect the greater demands being placed on them.

Check ups

An occasional check is a very good way of ensuring that staff are working well. Lax conditions often arise when no one appears to be interested in a particular area of the organisation. Anybody with common sense could be asked by the committee or manager to undertake a financial health check. We have detailed below the main topics that should be covered.

Objectives

Read the objectives of the charity in the constitution and check that the activities and fundraising applications fall within the stated objectives. If there is a problem it may be necessary to revise the constitution or change the activities of the charity.

Achieving outputs

Is the charity doing what it is being paid to do? Ask for copies of all the funding agreement application forms and letters applying for funding. Make a list of the services that the charity has agreed to provide and a list of what has been provided. What do you still have to provide? Can it be done within the time provided for in the funding agreements?

Budgets

A budget should be drawn up before the start of each financial year and approved by the management committee. If events are significantly different from those forecast then the budget may need revising during the year.

Management committee

The committee needs a report at least every three months comparing income and expenditure with the budget. This helps to ensure that the charity does not over spend and run out of money during the year.

Trustees

The organisation should have a competent active treasurer and trustees should be aware of their financial responsibilities as detailed in Charity Commission leaflet CC3a.

Cash expenditure

Cash income – coins and pound notes – and cash expenditure are the areas where voluntary organisations have the most difficulty. Months after an event organisations can be totally baffled as to how money was spent, or what the total amount of income and expenditure was. Payments by cheque are much simpler because copies of cheques can always be obtained from the bank.

Cash expenditure should be kept to a minimum. If it exceeds £100 a month in an organisation with a turnover of less than £30,000 consideration should be given to what payments could be made by cheque in future.

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