

**A Practical Guide to**

# **Financial Management**

**for Charities and Voluntary Organisations**

**Kate Sayer**

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**3rd edition**

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**for Charities and Voluntary Organisations**

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**DIRECTORY OF SOCIAL CHANGE**

Published by  
The Directory of Social Change  
24 Stephenson Way  
London NW1 2DP  
Tel: 08740 77 77 07, fax: 020 7391 4808  
email: [publications@dsc.org.uk](mailto:publications@dsc.org.uk)  
from whom further copies and a full publications list are available.  
In association with Sayer Vincent  
8 Angel Gate, City Road, London EC1V 2SJ Tel: 020 7841 6360  
e-mail: [info@sayervincent.co.uk](mailto:info@sayervincent.co.uk)

The Directory of Social Change is Registered Charity no. 800517

First edition published 1998  
Second edition published 2002  
Third edition published 2007

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ISBN-13 978 1 903991 88 6

British Library Cataloguing in Publication Data  
A catalogue record for this book is available from the British Library

Cover design by Kate Bass  
Designed and typeset by Keystroke  
Printed and bound by Antony Rowe

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# Foreword

Understanding financial issues is a key skill for everyone who works within a charity. In fact, the greater the depth of knowledge throughout the organisation the greater the financial control, and, more importantly, the better the charity will be able to maximise the quality of its services to its beneficiaries. Delivery starts with a strong and achievable strategy that relates well to the charity's mission, and it is with this idea that the book opens. The early chapters go on to cover financial management of a charity in a straightforward and pragmatic way, using clear and well-explained examples.

The book flows easily into chapters on preparing, presenting and interpreting charity accounts. In recent years there has been an improvement in the quality of charity accounts as a result of both the developments in the charity SORP and the recognition by many that accounts are not only a regulatory requirement but also an excellent opportunity to market the charity to its various existing and potential stakeholders. Good trustees' annual reports and accounts should show the impact that the charity is making and where it is on its strategic journey. For this purpose the charity must get the accounting basics right. Kate takes us through these areas step by step, using helpful case studies.

The final chapters of the book cover the taxation of charities; these are complex and difficult areas even for the most experienced of financial professionals in the charity sector, yet here the basics are laid out clearly and are easy to follow.

At its best accounting is simple. Unfortunately, at times it is made difficult through bad application of the basics. Good financial information should be presented in a way that the user has what he or she needs to make well-informed decisions to improve the charity's performance. This book does just that, providing a clear-cut guide to financial management and accounting. Readers who are new to charity finance will easily grasp the theory, techniques and skills required, and those who are experienced financial professionals will have a good reference guide to hand.

**Keith Hickey**

Chief Executive, Charity Finance Directors' Group



# Introduction

Financial management is about good stewardship of the assets available to a charity, as well as ensuring that the organisation has the resources it needs to fulfil its objects and plans. The legal responsibility for the good financial management of a charity ultimately rests with the trustees; although in larger charities paid staff will have a significant role to play.

Financial management is part of management as a whole and should not be seen as a separate activity left entirely to accountants or the finance department. This book is addressed largely to those without an accounting background and aims to equip them with the basic knowledge and skills they need to exercise good financial management practices. It is only a starting point, however, and managers will need to enhance their skills and develop good financial management practice through experience.

Although written for charities, the book will also be relevant to voluntary and other non-profit-making organisations that are not registered charities. The principles of good financial management apply to all these organisations and most will have a management structure similar to charities.

The first few chapters cover the basics of financial planning, including tasks such as costing, drawing up a budget, monitoring cashflow, managing risk, and presenting and using financial information to make decisions. The second section covers the actual production and interpretation of accounts, including basic bookkeeping, preparing annual accounts, the Charity Commission's Statement of Recommended Practice (SORP), and annual auditing requirements. These sections have been updated in the third edition for the revised charity SORP issued in March 2005.

The financial management of charities must be understood against the appropriate legal background. Charities are affected by many different laws in addition to charity law, and some reference is made to these as appropriate. Tax laws affect charities in specific ways, and so chapters have been devoted to trading and VAT in the final section of the book. The third edition has been updated to reflect the law up to May 2007, with some references to the Charities Act 2006 and the Companies Act 2006 where these affecting accounting and auditing.



## INTRODUCTION

This book does not aim to be comprehensive and so the Further Reading section at the end lists other books which cover relevant and related areas – such as employment law – in more depth. In addition, regular updated information is available on the Sayer Vincent website [www.sayervincent.co.uk](http://www.sayervincent.co.uk)

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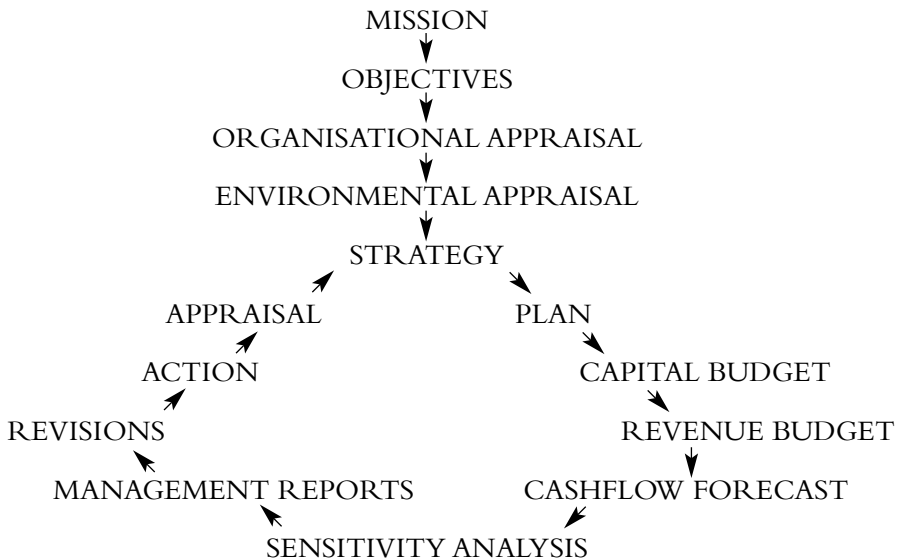
# 1 Financial planning

## THE PLANNING CYCLE

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Financial planning does not start with numbers. In fact, it is impossible to start a financial forecast without some idea of what you want to do and how. Good budgets can only be produced as a result of good underlying plans. Since there are always a number of variable factors, there may be considerable changes over the life of a plan. It is appropriate to think of the whole process as a cycle, because you have to review plans and budgets all the time.

### The planning cycle



### ***Mission***

Most organisations now have a mission statement. In fact, charities and voluntary organisations have always been fairly clear about their objectives, as these have to be established in order to set up the charity. Charities are motivated by the cause and this is usually well known to staff, volunteers and trustees. On the other hand, the process

of drawing up a mission statement that focuses everyone's attention on the real purposes of the organisation can be beneficial.

### ***Objectives***

Whilst the overall mission of the charity may be obvious, the objectives for the medium term will need careful thought. Objectives will often be the building bricks that help the organisation achieve its mission. For example, one objective might be the creation of a national service from a current base of one or two offices. Or a charity might decide that its objective should be to offer a place on a training course to every young person in its area of operation. At this stage of the planning process the objectives may be stated in fairly general terms, but should give focus to the organisation's work. The organisation may also decide on some specifically financial objectives, such as achieving a certain level of general reserves.

### ***Organisational appraisal***

Having decided on its general direction for the next few years, the organisation then needs to look at itself and assess its strengths and weaknesses in relation to the objectives it has set. This process may identify new skills and/or additional resources that will be needed – which could be staff, new premises or updated computer equipment. Identifying strengths and weaknesses may help to decide the timetable and how to progress towards the objectives; you may decide to build on strengths first, and address the weaknesses later.

### ***Environmental appraisal***

Charities need to assess the need for their work, just as commercial undertakings need to assess the market for their goods or services. Charities need concrete information about the 'market', which may come from publicly available statistics, or through research or information gathered by the charity itself. This part of the planning process should also consider who else is providing the service or meeting the need – in other words look at the competition. This will be essential when putting together fundraising plans, as any potential funder will expect answers to such questions. The organisation should focus on opportunities and threats presented by external forces. The outcome of this part of the work may be to identify some constraining factors, such as other charities working in the field, the potential withdrawal of government funding, the number of potential beneficiaries or difficulty recruiting suitably trained staff. These factors will all need to be fed into the plans.

### ***Strategy***

The strategy tries to set out the overall approach or plan for getting the organisation from A to B, where A is where it is now and B is where it wants to be in so many years' time, as expressed in the objectives. So, for example, if one of the objectives is to