

Financial Control

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4.1 Why should woodland organisations need financial controls?

It is probably self evident that all entities (be they private, corporate or public) will need to exercise some form of financial control. Individually we all have to set our weekly or monthly expenditure in line with our weekly or monthly income. Then if we wish to go ahead with perhaps a house extension involving significant expenditure, we will seek to ensure that the cost of this is covered perhaps from savings or indeed a one off capital receipt (perhaps from an inheritance) or alternatively we may seek to borrow some capital from a Building Society. In each circumstance, however, most of us will accept that before embarking upon the project we will seek to ensure that adequate funds are available to cover the cost of the work.

It is not surprising, therefore, that a well run organisation will display similar characteristics – but probably even more so. As has been stated elsewhere, depending upon the legal nature of the organisation, e.g. is the organisation constituted as a registered charity, or perhaps as an unincorporated association, those charged with responsibility for it will almost certainly be placing themselves under some degree of personal financial risk. Fairly obviously, this risk tends to increase if they do not run the organisation in a sensible and responsible fashion. In any event, it may well be that there is a reporting regime which is imposed with which they will need to comply. For instance, registered charities are monitored by the Charity Commissioners who have stringent powers to act in circumstances where they suspect malpractice of one form or another.

The comments set out in the following notes tend to assume that our model organisation will be constituted as a registered charity. However, most of the points made can equally be applied to any organisation and in all cases it is strongly recommended that individuals take professional advice on the set up of the control environment within which they are to operate. A common feature built into most well-run organisations is that its financial controls are routed in basic commonsense. This is not an area of rocket science – however, it is extremely important and controls need to be set in place at the outset. Many organisations working in the woodlands sector will be seeking to draw down substantial sums in the form of grant funding and these sums may well be paid over in substantial lump sums, perhaps in advance of the expenditure being made. This will mean that those sums need to be protected so as to be properly applied to the project in question.

It is perhaps worth stating that no system of controls will ever guarantee that an organisation will be totally protected against abuse or failure. The trustees of registered charities and those responsible for other organisations often complain about the extent of their personal liability in the event of any loss to the organisation resulting from misappropriation of funds. If strong controls are in place initially, then this will substantially reduce the risk of misappropriation in the first place and it is also likely to provide a reasonable defence if a claim is made against the trustees in the event of the organisation's failure.

4.2 Key Financial Controls

(a) Segregation of Duties

Wherever practicable, organisations should seek to ensure that more than one individual is involved in the processing of a single transaction. For example there are obvious potential problems if the person responsible for placing orders to suppliers is also responsible for payments made to the same suppliers. Wherever possible, therefore, these duties should be segregated between different individuals. However, it is also accepted that segregation may well be very limited in small organisations.

(b) Appropriate Qualifications

It is clearly important that organisations will need to ensure that their employees, trustees and other officers such as volunteers, are qualified to undertake the tasks with which they are charged. "Qualification" encompasses the widest possible meaning here. In particular, individuals should hold appropriate formal qualifications but also should be properly trained up for the tasks which they are to perform. This is not just an issue when new staff are recruited but is ongoing. Well-run organisations will seek to encourage and develop the roles of all members of staff and a necessary pre-requisite of this will be an ongoing training commitment.

Equally, it is important to ensure that any professionals who are retained to advise the organisation in question are experienced within the sector. They should not be given the task purely because they are personal friends of the project director.

(c) Budgetary Controls

One of the key financial controls over all voluntary organisations should be the imposition of a budget. This will involve the setting of a budget, normally for the forthcoming financial year though potentially for a significantly longer period as circum-

stances dictate. This will describe the expected income and expenditure over that period and will seek to show that expenditure commitments can be met as they fall due and that overall expenditures are covered by estimated income.

It is perhaps useful here to summarise the budgetary control system which is operated by SWA (*see page 28*). An annual budget is prepared by each project manager. These are then grouped together and fed into the overall organisation budget. This budget is then submitted to the SWA Trustees for formal approval so that it is in place at the start of each financial year, duly approved. All transactions through the year are then processed through the accounting system and are classified both according to type and project. Income and Expenditure Reports are then produced on a monthly basis for all projects and these allow actual results to be compared with the budget forecasts. Significant variances against budget are thus easily highlighted and project managers are asked to explain these and if necessary to seek amendments to the original forecasts. Summary monthly reports are then placed before the Trustees at each Board Meeting.

It is self evident that the budget needs to be realistically set and will only be as accurate as its worst assumption. It is important that trustees understand how income is generated and in particular which income sources are certain and which are estimated and the nature of those estimates. For example, there are many charitable organisations up and down the country, which are set up to run annual "shows". Year on year, income from the show may be extremely variable, particularly in the event of poor weather conditions. Therefore, budgeting in such circumstances would need to take a pretty prudent view.

Approval of budgets can only be done by due discussion at meetings of the trustees who should make every effort to ensure that their understanding of the budget is as full as possible. In this connection, trustees should always consider whether or not they have sufficient financial and other expertise at their disposal.

(d) Checks over Income

It is clearly important that the trustees/directors should ensure that all income due to the organisation is in fact received. This can be a particular issue where organisations receive income in the form of cash, maybe from open days or annual shows. Difficulties can be compounded here where inexperienced personnel are engaged. In these circumstances, officers need to establish adequate procedures (preferably in the form of written instructions), so as to ensure the adequacy of control.

(e) Restrictions placed upon Funds handed over to the Organisation

Very often organisations are in receipt of grants provided towards the cost of the provision of a particular service or other project. In the event that these grants are under spent, is that excess funding repayable to the original grant paying authority or is it available to be added to the organisation's general reserves?

Equally, organisations need to ensure that there is a very clear understanding of the nature of the conditions attached to these grants. Typically large grants will be subject to any number of detailed conditions and managers must understand the nature of these conditions. There should always be an assessment of the risks of non-compliance and secondly, of the financial and other implications which would ensue.

Income received for specific purposes and potentially returnable to a donor, when received by a registered charity, is required to be separately identified in the books of account and separated out in the annual accounts. Trustees need to ensure that controls are in place so as to ensure that the application of restricted funds is in line with those purposes prescribed by the donor authority.

(f) Expenditure Controls

Controls should exist to ensure proper segregation of duties, as already described and also to ensure that all expenditures are properly authorised by an appropriate responsible trustee/director or other officer, in advance. Again it is suggested that written procedures should be in place so that individuals involved are aware of the extent of their responsibilities.

It is perhaps worth mentioning here that many granting authorities are understood to insist that written procedures for these issues should be in place. It is strongly recommended that payments out from the organisation should be made by cheque rather than in the form of cash. Cheques should require at least two signatories (they should not be connected) and in no circumstance should blank cheques be signed off in advance by one of those signatories.

(g) Payroll Issues

Trustees need to ensure that they are fully aware of the staff employed by the organisation and that all appointments are properly authorised. Procedures need to be in place so that salary payments are as agreed and in line with contractual agreements. Very often payroll costs form by far the single largest item of the organisation's total expenditure and, therefore, this should be subject to adequate control.

(h) **Taxation**

Trustees need to consider that they pay proper attention to compliance issues under this heading. Issues here will include the following questions:

1. Is PAYE and NIC properly applied to all payroll costs? Are regular payments made to self-employed contractors who should properly be dealt with under PAYE?
2. How does VAT affect the organisation? Many charities and other similar organisations face particular difficulties in this area. In particular, the partial exemption provisions may need to be considered and it is strongly recommended that professional advice should be sought in this area.
3. Is the organisation subject to income tax or corporation tax on surpluses of income over expenditure? Again it is recommended that professional advice should be sought.
4. Does the organisation seek to make claims under the gift aid scheme? If so, the organisation may well be subject to audit by HM Revenue & Customs and it is necessary for the trustees to ensure that recording procedures in this area are sufficient for the purpose.

(i) **Controls over Assets**

As well as ensuring that trustees place proper controls over income and expenditure, they will need to ensure that there are sufficient controls over the organisation's other assets such as any property in its possession, financial investments, office and other equipment, vehicles and other assets. It is recommended that a list of all such assets should be maintained and this should be checked and updated at regular intervals. Policies should be in place to ensure that where appropriate, assets are maintained in good condition and that adequate insurances are in place.

(j) **Reserves Policy**

Officers should seek to put in place a policy for generating an adequate fund to ensure that if the organisation faces a significant disturbance to its income, then expenditure commitments can still be met. For example the organisation running an annual show would seek to ensure that adequate reserves exist such that all expenditure commitments in connection with next year's show can be met even if this year's show is completely wiped out, perhaps by bad weather or some other restriction beyond the organisation's control.

This is clearly a sensible control measure and once again takes up the theme of limiting the personal risk of those individuals responsible. It is recognised that it may well take some organisations newly set up, some years in which to build up adequate reserves. This is accepted but clearly this building up process should be built into the first years' budgets. Indeed, registered charities are now required to report upon their reserves policy within their trustees' report submitted with the annual accounts to the Charity Commissioners.

Note

The notes and opinions expressed in this section on financial controls are submitted as guidance only and it is strongly recommended that professional advice should always be sought. No responsibility for loss occasioned to any person acting or refraining from acting as a result of information in this material will be accepted by the Forestry Commission, Small Woods or James, Holyoak & Parker Limited (or any of its partners).

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