

# LEEDS INFRASTRUCTURE CONSORTIUM RESOURCE PACK

## SECTION 3 - FINANCE

### ***Introduction***

This section on **Finance** is part of an 8-pack series of resource materials that has been produced by the Leeds Infrastructure Consortium. For further information, please go to [www.leeds-ic.org.uk](http://www.leeds-ic.org.uk).

### ***Finance***

Finance is an absolutely vital element for any voluntary or community organisation to be effective. Organisations of all sizes need to make sure that they have an effective financial system in place that is appropriate for the size of their organisation. This is needed so that your management committee, your members, the general public and any funders know that you are operating legally and effectively. Many funders, for instance, will ask to see your accounts or income/expenditure details before they consider offering you a grant.

We have produced a short guide (section 3a) that talks about the four foundation stones of good financial management

- Planning
- Procedures
- Recording
- Reporting

# LEEDS INFRASTRUCTURE CONSORTIUM RESOURCE PACK

## SECTION 3a – FINANCE GUIDE

### **Introduction**

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### **1. PLANNING**

Whatever size your organisation is, you need to have a plan of what you are going to do. When you express this in terms of money, it is called a budget. There are different sorts of budget; for example, if you are applying for funding for a particular activity, this would be a project budget. This may be one part of the whole organisation's budget. Ideally the budget is prepared, reviewed and approved by the management committee on (a minimum of) an annual basis, before the new financial year starts.

The budget needs to include all income and expenditure items.

- Income can include: grants (from a range of organisations); subscriptions (if you charge members an annual fee, for instance); donations; fees for services; income from fundraising events and activities; bank interest.
- Expenditure includes: staffing / sessional staff; premises and utilities (rent, rates, heat and light, telephone); promotion and publicity (postage, printing, stationery); travel & transport; volunteer expenses; training; book-keeping & payroll. You also need to include any capital costs you may have for office and computer equipment, for instance.

*For a template budget proforma produced by WYCAS, go to [www.wycas.org.uk/UserFiles/File/Finance\\_Resource\\_Pack/Budget\\_proforma.xlsx](http://www.wycas.org.uk/UserFiles/File/Finance_Resource_Pack/Budget_proforma.xlsx).*

### **2. PROCEDURES**

This includes who will do what, when and how it will be done.

The first important rule is that the organisation's money should be kept separately and this usually means having its own bank account. Many banks offer free banking to community organisations. You will need to sign a Bank Mandate and provide sample signatures. It is usual (and good practice) that two signatures are required on each cheque.

Roles within the organisation need to be well defined, and the Treasurer's role is important for financial management. Although the entire management committee is responsible for financial management, the treasurer needs to ensure that recording and reporting procedures are in place, so that the management committee understands the organisation's financial position.

Financial rules are also needed to guide individuals on which expenses can be claimed, who can authorise payments and to ensure that error and fraud are prevented.

*A template of financial rules is available on WYCAS' Good Practice Guide at [www.wycas.org.uk/UserFiles/File/Good\\_Practice\\_Guides/GPG\\_No\\_2\\_Financial\\_Procedures.pdf](http://www.wycas.org.uk/UserFiles/File/Good_Practice_Guides/GPG_No_2_Financial_Procedures.pdf)*

### **3. RECORDING**

The organisation is responsible for looking after its money and, for that reason, needs to record the money in and money out transactions. This will allow a picture to be built up of income and

expenditure over a period. This can be compared to the budget during the course of the year as well as informing the annual accounts statement.

There are many different ways of running an accounting system, for example, writing details in a book, or on the computer in an excel spreadsheet. Larger organisations often use specialised software such as SAGE or Quickbooks.

The key details you need to include (for both bank and petty cash transactions) are:

- Date
- Income: the amount, where it came from i.e. the source, what it was for and the receipt number you have allocated
- Expenditure: amount, what it was for and a reference back to the original invoice or expenditure voucher.
- If you have received funding (e.g. a grant) for a specific purpose this is called a restricted fund, and you will need to use a code, or way of identifying these transactions in your records.

In addition to keeping a record as above, you will also need to find a way of keeping the receipts and invoices that provide the proof that you have received / spent the money you have recorded. Many funders will ask for copies of these (or, on occasions, the original receipts).

This record should be reconciled to (matched back to) your bank statement (or the balance in your petty cash tin) as a check for errors and uncashed cheques.

For a [schematic diagram](#) showing the importance of the cashbook and how reports flow from it please see section 3b.

A working copy of WYCAS' Excel cashbook is available at [www.wycas.org.uk/UserFiles/File/Finance\\_Resource\\_Pack/WYCAS\\_Cashbook\\_Template.xls](http://www.wycas.org.uk/UserFiles/File/Finance_Resource_Pack/WYCAS_Cashbook_Template.xls)

An ideal example of a cashbook is available from WYCAS at [www.wycas.org.uk/UserFiles/File/Finance\\_Resource\\_Pack/Ideal\\_cashbook.xlsx](http://www.wycas.org.uk/UserFiles/File/Finance_Resource_Pack/Ideal_cashbook.xlsx)

## 4. REPORTING

Management accounts can and should be used in the course of the year to show the management committee how actual financial activity compares to the budget or just to inform planning decisions. The information for these reports should be easy to extract from the recording system at any point in time.

You may also need to produce reports on particular restricted funds – for example, when you need to complete a monitoring return.

The constitutions of voluntary and community organisations almost always state that the management committee must produce annual accounts.

At the end of the organisation's financial year it should produce its financial statements in 2 parts: the first part showing the story of what has been received in and paid out in the course of the year and the second part showing the snapshot of the balances held at the year end. This should be done using the recorded information.

The accounts can be prepared yourself, or you can use an accountant to prepare them for you – for a fee. If you are unsure of what you need to do or the format of the financial statements, help can be found at [www.wycas.org.uk](http://www.wycas.org.uk) (see further information).

## ***Independent Examination / Audit***

There may be a need to have the organisation's accounts checked by a suitably qualified person independent of the organisation. This may be stated in the constitution, or a funder may require it, or (if a charity) the Charity Commission may require it.

An independent examination is a simpler form of scrutiny than an audit but it still provides trustees, funders, beneficiaries, stakeholders and the public with an assurance that the accounts of the charity have been reviewed by an independent person.

Only very large organisations or those where it specifically states it in their constitution are required to have a full audit.

## ***Further information***

In Leeds we are fortunate to have an excellent organisation called WYCAS – West Yorkshire Community Accounting Service. It is based at Stringer House in Hunslet and provides a range of financial support for organisations including: information, training, advice, good practice guides, bookkeeping and accounts preparation and independent examination. A large amount of information is immediately accessible on [www.wycas.org.uk](http://www.wycas.org.uk).

WYCAS has a dedicated Community Accountant for organisations based in Leeds so she should be your first port of call – Claire Welling on 0113 270 6291 or email [claire.welling@wycas.org.uk](mailto:claire.welling@wycas.org.uk).

One useful WYCAS publication is called “Money Management for Community Groups”. This is a user friendly, jargon free guide to financial management and accounting for small charities and community organisations. It can be obtained free of charge from WYCAS through their website, or telephone 0113 270 6291.

*Alternatively follow these links to the 4 sections of the booklet:*

*Budgeting* [www.wycas.org.uk/UserFiles/File/Finance\\_Resource\\_Pack/Resource\\_pack\\_pt\\_1.pdf](http://www.wycas.org.uk/UserFiles/File/Finance_Resource_Pack/Resource_pack_pt_1.pdf)

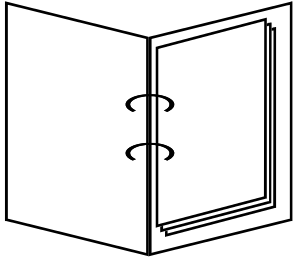
*Recording* [www.wycas.org.uk/UserFiles/File/Finance\\_Resource\\_Pack/Resource\\_pack\\_pt\\_2.pdf](http://www.wycas.org.uk/UserFiles/File/Finance_Resource_Pack/Resource_pack_pt_2.pdf)

*Rules* [www.wycas.org.uk/UserFiles/File/Finance\\_Resource\\_Pack/resource\\_pack\\_part\\_3.pdf](http://www.wycas.org.uk/UserFiles/File/Finance_Resource_Pack/resource_pack_part_3.pdf)

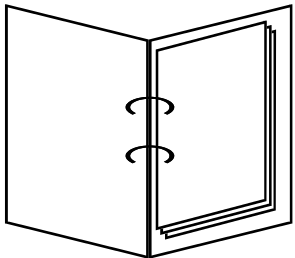
*Reporting* [www.wycas.org.uk/UserFiles/File/Finance\\_Resource\\_Pack/resource\\_pack\\_part\\_4.pdf](http://www.wycas.org.uk/UserFiles/File/Finance_Resource_Pack/resource_pack_part_4.pdf)

# An example of the books and records you need to be keeping that support the financial reports that you produce

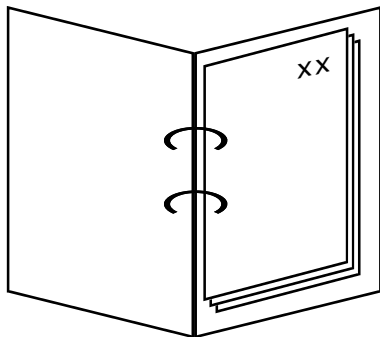
Funding documentation



Bank statements

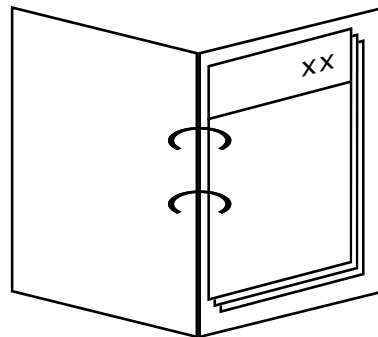


Income documentation



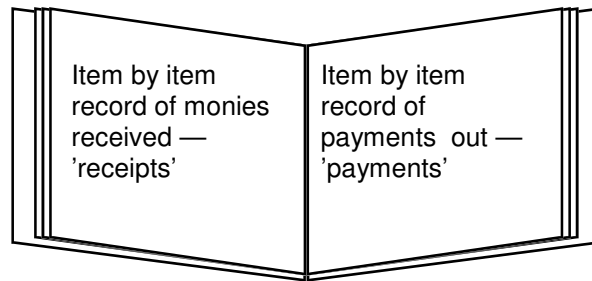
← Reference number

Payment documentation

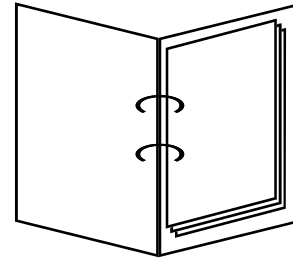


← Cheque number & authorisation record

Cashbook, including the assets register



Year end adjustments workings (for accruals reports)



Receipts and payments account (cash basis), or:

Income and expense account (accruals basis)

Statement of assets and liabilities (cash basis), or:

Balance sheet (accruals basis)