Top Ten Tips for Assessing the Financial Management of Smaller Charities

Under the special circumstances we find ourselves in during the pandemic, what should you be looking for when evaluating the financial management of small charities?

Whether you are a trustee, considering awarding a grant, making a donation or entering into a partnership or merger you may have a checklist of what to look for when assessing the financial management of a charity, scaled appropriately to the level of activity in question, but this may need updating in light of the pandemic.

1. **A CASH FLOW FORECAST** to identify when the charity will run out of cash based on current circumstances – what income will it realistically still receive, and when? Look for a charity that understands the difference between a budget and a cash flow, and for evidence that the charity has looked at what costs it can defer, reduce or negotiate to ensure cash is available when needed.

2. **AN UPDATED BUDGET** based on the new reality, that tracks actual results on a monthly basis – look for evidence that the charity investigates and explains variances from the expected results, and takes appropriate action.

3. Look at the **CHARITY'S RESPONSE** to the pandemic and how it has adapted its services e.g. by moving them online, as well as ways in which it has addressed costs e.g. by cost sharing with other organisations, taking advantage of the government's job retention scheme and other support, or revising its unit costs to ensure full cost recovery with any new business.

4. Is the charity **DIVERSIFYING ITS INCOME STREAMS** to make up for lost funding due to the crisis? This could include holding online events, releasing designated funds, disposing of assets, taking out loans or even using endowment assets, with the appropriate Charity Commission permission. Ensure that the decisions made in this respect are appropriate, in the best interests of the charity and documented as approved by the board.

5. Has the **BUSINESS PLAN** been revised for any changes to the business model to adapt to the pandemic? Is there sufficient financial information in it for the whole period of the plan, with notes and narratives to explain any new or significant amounts? Consolidation of well-reasoned income and expenditure projections by showing year-end reserves balances will help to persuade you of the charity's likely sustainability.

6. Look for an effective **MONTHLY ACCOUNTING PACK** with the kind of information needed by management and the board to make good decisions, prepared in a timely manner. Make sure any published financial information such as the annual report and accounts is clearly presented on the website, accurate, enlightening and filed on a timely basis. The report and accounts provide a unique window on the overall health of the organisation. Track record is important so look at previous sets of filed accounts to identify underlying trends and check for consistency of future plans with subsequent performance.

7. Has the **RESERVES POLICY** been tailored for the charity's need or is it just an "off the peg" version? Does the charity have an appropriate level of cash to meet immediate financial commitments and provide some flexibility in case of unexpected costs? Can it justify its reserves, and are they available and accessible should it need to draw on them?

8. Is there evidence of **APPROPRIATE INTERNAL CONTROLS AND POLICIES**? Do they demonstrate that the charity has adequate segregation of duties, appropriate authorisation limits and other checks and balances that safeguard the charity against fraud? Are funds safe with the charity? The pandemic has increased the risk of fraud, as organisations change tack and staff start to work remotely. A good charity will have well-documented processes and procedures to ensure continuity of service.

9. Has the charity got the right **FINANCE SKILLS ON THE BOARD** and in the management team? If not, is it recruiting, training, or getting help to identify gaps? Finance should be a standing item on every board meeting agenda. Has the charity obtained the appropriate level of external scrutiny – self-approval, independent examination or audit - depending on charity size and governing document? Is the board meeting more frequently during the pandemic, as events unfold more quickly?

10. Is there an **UP-TO-DATE RISK REGISTER**, with financial risks appropriately flagged up – for example, investment or borrowing risks if applicable, or commercial risks relating to contracts, property, equipment, or key personnel?

These tips can help you identify the organisations that have put in the training for the marathon that stands before them – the long road through the pandemic to financial sustainability.

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