CITY PAROCHIAL FOUNDATION

Financial Monitoring of Funded Organisations

Report of a study by Peter Fairbairn
on behalf of City Parochial Foundation
and the Trust for London

City Parochial Foundation and Trust for London
6 Middle Street, London EC1A 7PH
Tel: 020 7606 6145 Fax: 020 7600 1866
Registered Charity Nos. 205629 and 294710

Trust for London

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Introduction

The City Parochial Foundation (CPF) distributes nearly £5 million each year to organisations working to benefit the poor of London. It funds more than 500 organisations at any one time. The Trust for London (TFL) distributes over £600,000 a year and funds more than 150 organisations at any one time. In general, the TFL tends to fund smaller organisations than the CPF.

The recipients of these funds range from large housing associations to tiny community groups. Some of the recipients have skilled trustees and staff, but others have little or no formal training or experience to help them ensure that funds are used carefully for their designated purpose.

The Foundation has always had a policy of meeting applicants, normally by visiting each organisation. These visits help staff gain a better understanding of applicants and their overall ability to provide the services for which the grant is being sought. The visit can result in a substantial revision or even enhancement of the application; alternatively it may lead to a recommendation that a grant should not be made.

Initial face to face contact also helps build a good relationship. Sometimes, especially with small community groups, it leads to the employment of consultants to advise the beneficiaries so that they make best use of their funds. Links are maintained by the field staff who monitor the performance of the group. There is further contact through the payment process. This requires groups to claim grants in quarterly instalments and submit annual financial statements for scrutiny.

Because of its close relationship with beneficiaries, the Foundation has become increasingly aware that many groups experience difficulty with financial control. This can lead to unreliable accounts, late or erratic claims for grant instalments and failure to provide reports required under the conditions of funding.

Over recent years it became clear that it is all too easy for groups to set aside financial governance and control, and regard it as less important than the 'work' of the organisation. As a result they may fall prey to fraudulent activities and sharp operators. More importantly, poor awareness of their financial state of affairs almost certainly results in poor decision making.

Charities have also increasingly been burdened by the complex demands of the Charities Act 1993 and the SORP (Statement of Recommended Practice), Accounting by Charities. This has made financial management a much more visible requirement. Public interest in charities, especially large charities, has grown, manifesting itself most acutely in concerns over the amount of funds 'wasted' on administration.

The Trustees of the Foundation have a duty to ensure that the funds for which they are responsible are used effectively for their ultimate purpose - to benefit the poor of London and small local groups.

Thus in1996 the Trustees considered that a more thorough approach to evaluating the areas of concern was required. Peter Fairbairn, a secondee from the Community Accountancy Project in Hackney, was asked to carry out a study with the following aims:

- To provide the Foundation with a clearer picture of the need for a continuing financial monitoring role.
- To examine how this might be undertaken.
- To establish procedures for the Field Officers to carry out some general financial monitoring.

The results of the study are presented in this report which is divided into two main sections. The first deals with the study itself and the analysis and implications of its findings. The second looks at how these implications might be translated into financial monitoring procedures at the Foundation specifically, but may also apply to other grant-making organisations.

James Varley
Accountant to the Trustees

Summary of findings and recommendations

Findings

- Financial planning is poor in a substantial number of organisations.
- Basic financial skills are absent in many organisations. Inadequate bookkeeping expertise and a lack of effective financial reporting are the main areas of weakness.
- Financial controls and procedures are lacking in all sizes of organisation examined.
- Many organisations do not understand trustees' responsibilities or financial governance requirements.
- Less than half the charities involved in the pilot study understand how the Charities Act Accounting Regulations and the SORP apply to them. This lack of understanding is mirrored in large sections of the audit and accountancy profession.
- There are few incentives for charities to improve their financial governance.
- The experience of organisations surveyed is that there is a lack of local, affordable, quality training which is accessible to the trustees and staff of small charities.

Recommendations

To the Foundation

- In-depth financial monitoring of funded organisations should be undertaken.
- Field staff who do not have adequate knowledge of financial controls and management should receive training, specifically related to their roles.
- Procedures for dealing with applications, assessment of organisations, awarding of grants and monitoring should have financial monitoring and evaluation processes integrated within them.
- Additional support in the form of introductory seminars should be provided for first time grant recipients.
- A post within the Field Staff team should have the required level of financial expertise to enable monitoring and evaluation to be effective.

General

- Organisations should consider using specialist charity auditors.
- Funders should collaborate to establish new approaches to monitoring, particularly where projects are multi-funded or organisations receive funds from a variety of sources.
- Funders should consider working together to improve access to local, good quality, low cost financial training.

The Study and its Findings

Section 1

Scope and methods used

The study was conducted over six months from January to June 1997. It aimed to cover a cross section of organisations funded by the Foundation. It took into account turnover, the purpose of the grant and the location of the selected group. It included organisations run solely by volunteers as well as those with paid finance staff.

Three principal methods were used to obtain information:

A questionnaire (see Appendix 1) was sent to 70 organisations (42 funded by the CPF 28 by the TFL). It asked about 18 basic elements of financial governance covering planning, recording, reporting and control systems. Information was also collected about support sources used by the organisations and areas of financial governance requiring further development. 59 completed questionnaires were returned. The analysis of questionnaires is detailed in Appendix 2.

Visits were made to 25 organisations in the sample. Interviews were held with those responsible for the financial system, and examples of elements of the system in use were examined and discussed. This enabled a more complete picture of the governance of the organisations to emerge.

The grants provided by the Foundation were discussed, and evidence of the need for them and their use was gathered. Discussions were held to determine the barriers that inhibit effective financial governance, and to consider possible solutions (see Appendix 3).

Four **meetings** were held with a separate sample of funded organisations. These were attended by representatives of 20 organisations and included both trustees and paid staff. Each meeting was designed to examine particular areas of financial governance. Participants were encouraged to discuss the difficulties they faced in meeting governance requirements.

Findings

Note: percentages in parenthesis relate to total sample size (59) unless otherwise stated.

A. Financial planning by organisations

General Findings

The study found that there was growing recognition of the value of forward planning, but most charities still operated in a largely reactive manner. While almost all (93%) prepared an annual budget, less than half had a written fund-raising plan. There was a real need for organisations to be planning further ahead. One charity wanted to spend more time on planning, but could not fit it into its current workload!

Annual budget

Written budgets inform trustees and involve them in the budgeting process. They also form one of the most important financial controls within an organisation – a yardstick against which both income and expenditure can be regularly measured. Without

this basic management tool an organisation can easily lose track of its finances and run into problems. The failure of smaller organisations to prepare a budget can lead to the inadvertent exclusion of some (especially newer) trustees.

• Among some charities the benefit of setting realistic budgets had been recognised. However, some smaller organisations felt they did not need to prepare a budget. They took the view that “this is all we’ve got, and we know how it will be spent.”

Fund-raising plan

Plans are not a guarantee of funding, but they do provide a blueprint for action. A well designed, and carefully monitored, fund-raising plan gives an organisation the confidence to push on with its aims rather than panic and batten down the hatches. Fund-raising is a slow process. Without an agreed and monitored fund-raising plan, an organisation may find an unexpected shortfall in its finances causes a financial crisis.

• In one of the larger groups in the study, guaranteed funding accounted for only 30% of its annual income requirement.

• Whilst almost half (46%) of the organisations said they had an agreed fund raising plan, the visits found this not to be the case. Where plans did exist they had often been developed in response to funders’ requirements.

Reserves policy

Organisations without free reserves are very vulnerable to changes in circumstances. Reserves are needed to cover potential liabilities such as contractual sick pay, to plug a funding gap, to cope with the unexpected or (more optimistically) to pump prime new activities and projects. These eventualities cannot be met using restricted funds held for other specific purposes.

• Only 19 (32%) of the groups had an agreed reserves policy. Many expressed the view that reserves are a luxury they could not afford.

• To make matters more difficult, many local authorities and other funders used the existence of reserves (whether restricted or unrestricted) as an excuse for reducing funding levels. This pushes organisations into a downward spiral which may result in collapse.

• Even those groups holding reserves often did not have enough to cover basic potential liabilities such as contractual employment agreements.

• There was often an imbalance between the short term pressures to provide urgently needed services and the long term need to safeguard the viability of the organisation.

B. Recording systems

General Findings

There was a range of recording systems in use, from tiny notebooks with a single column of figures to 28 column analysed cash books. Recording standards also varied – the visits found illegible cash books and spreadsheets with incorrect totals. In one organisation two people were doing the same work, recording the same transactions in two different books. The study found that financial recording systems tended to develop piecemeal as groups grew. Often only one person knew how it all slotted together.

Bank reconciliations and records

Accurate records of financial activity are vital for openness, efficiency and to assist in ensuring that an organisation is protected against fraud. Clearly prepared cashbooks and other financial records provide the raw material for the preparation of reports. They help both staff and trustees gain an accurate and up-to-date view of the organisation's finances and help towards constructive decision-taking.

• Even in the smallest groups there was a lack of control over cash; in the larger groups this amounted to extremely poor practice.

• The majority of groups (78%) claimed to produce a bank reconciliation statement every month. Follow up visits found this assertion was often inaccurate. In fact some groups did nothing at all. Some groups visually checked their cash books to the bank statements without a written statement or proof of the accuracy of their bookkeeping.

• Often the bookkeeper had never been shown how to do a bank reconciliation. This was especially true in the case of volunteer treasurers, many of whom lacked confidence in their abilities, and felt they would benefit from training.

• All respondents said they kept income and expenditure documents safely, but visits demonstrated that many were unable to match invoices to payments made or income received. There was a widespread lack of referencing and, in some cases, no documents to support significant cheque payments.

• Many respondents said that their work was never checked by anyone else (except annually by the auditor).

C. Financial reporting

General Findings

Despite the publicity surrounding the SORP, many charities and their auditors had not got the message. There appeared to be an alarming inconsistency in the preparation of accounts. If funders or indeed the Charity Commission were to attempt to use financial statements for any meaningful assessment they were likely to find them lacking.

How the Charity Commission will respond to this remains to be seen, but if it is serious about enforcing the rules many charities could find themselves paying twice for their annual accounts.

Particularly among newer organisations, the study found that internal financial reports were either inaccurate or not prepared.

Internal financial reporting

Without accurate reports it is impossible to make sound financial decisions or to plan ahead with confidence. Trustees need them regularly to maintain an overview of the financial position. Charity law requires trustees to safeguard the assets, but they cannot do this if they do not know what they are. The lack of clear, written reports excludes trustees from the decision making process and often leads to a small group of people establishing undue influence within the organisation.

• 34% of organisations claimed to prepare monthly financial reports. The form of the report varied greatly between organisations – from a brief verbal report on the bank balance to a full written report comparing income and expenditure against budget and explaining any material differences. These findings were confirmed during the visits.

External financial reporting

Incorrect preparation of the accounts may reflect badly on the group or give funders an erroneous impression of the financial affairs of the charity.

• Only five organisations had taken the option to have their accounts independently examined. This option under the Charities Act was clearly not being taken up.

• Even very small organisations had insisted on an audit. This situation was being reinforced by funders who required audited accounts as a condition of grant aid, and sometimes by an organisation's constitutional requirement for an audit.

• 22 groups prepared annual accounts on the receipts and payments basis, 29 on the accruals basis. Some organisations apparently produced accounts on the receipts and payments basis although the Charities Act required the accruals basis for organisations of their size. The amount of blank responses suggests that the terminology may not have been understood by a considerable number.

• No organisation suggested that it was waiting to see if its income was over the £100K accounting threshold, which would have made the use of the accruals basis compulsory.

• 35 respondents (59%) said they were familiar with the SORP, while 24 (41%) were not. At the discussion meetings, less than half the participants said they had even heard of the SORP. Only two people said they understood how it applied to their organisations.

• Some said they were leaving the SORP for their auditors to deal with – but annual accounts (for 1996/97) collected in the course of the study showed that there were alarming deficiencies in the understanding of the SORP within many accountancy practices.

• A growing number of groups were using auditors who specialised in the charity sector. Others used non-specialist, 'high street' auditors or remained with long-standing (and often low cost or free) contacts. Very few reviewed their audit needs or invited tenders for the work.

• Some groups, requiring at least an independent examination, were receiving only an 'accountant's report'.

• Accounts were commonly signed off with no comparative figures, no separation of restricted funds and a lack of notes to the accounts.

D. Financial controls and procedures

General Findings

All groups had some form of financial controls and procedures, but the level and rate of implementation varied greatly. Even at the most basic level of having two signatures on each cheque, the study found blank cheques were often pre-signed by one signatory, thus defeating the whole purpose of controls.

There were some examples of well developed control systems. These included wage control accounts, limits on cash held on the premises and clear division of duties. There was a tendency, particularly in the charitable trusts funded to rely heavily on the honesty of treasurers and staff. In more than one charity the treasurer retained sole responsibility for carrying out and recording transactions – including the signing of cheques (up to £1,000 in one case).

At the discussion meetings, only two participants said they had any form of a financial procedures manual. Some were concerned that the process of introducing written procedures would cause suspicion and mistrust among trustees. Others felt they are not practical in small groups. The concerns and questions raised about some areas of control suggested a high level of mistrust was entrenched in a number of groups, most especially amongst those which were serving a local area or community.

Clearly defined financial controls and procedures play a crucial role in an organisation's future development. They assist an organisation to demonstrate its integrity, prove its credibility and develop confidence in its internal management capacity. Without adequate financial controls an organisation can lay itself wide open to internal discord, poor management of resources and the opportunity for fraud.

Fixed assets register

A register of assets helps an organisation to ensure that its valuable equipment is adequately insured and safeguarded.

• 37 (63%) groups maintained some form of fixed assets register, while 22 (37%) did not. Even among many larger charities, with a lot of equipment and computers, the benefit of a concise list of what they own was not recognised.

Insurance

Adequate insurance cover is necessary to ensure that an organisation's assets are safeguarded, its legal obligations are met and the risk of unexpected financial liabilities is minimised.

• Some groups employing staff had no employer's liability insurance. Some had no public liability cover although they used volunteers and ran numerous public activities.

• Some organisations who provided advice had no professional indemnity insurance. Some organisations with computers did not have an office contents policy.

Employment issues

For many organisations, employing staff may be the largest financial commitment they undertake. The complex legal and financial issues

surrounding employment must therefore be carefully considered so that the interests of the organisation are properly safeguarded.

• It was noticeable that newer groups were offering less generous terms and conditions covering redundancy, sick and maternity entitlement. Fixed term contracts were found to be far more common than they were a few years before. Uncertain funding and the contract culture were the principal reasons for these changes.

• A number of groups had potential employment liabilities they could not hope to meet from free reserves. Some did not issue a written statement of terms and conditions to their employees, despite their legal obligation to do so.

• Wage payments were often made in contravention of Inland Revenue legislation.

Use of computers

The computerisation process should be carefully planned and budgeted to ensure a successful outcome. Software, training and support needs should be addressed before the process begins. Security controls and back up procedures are essential safeguards. Without proper planning and implementation, computerisation may create more problems than benefits.

• The study showed a trend, even by small organisations, towards the computerisation of their accounting records. 22 (37%) respondents used some form of computerised system. There was a tendency for treasurers or staff to install a system they knew, regardless of its suitability to the organisation's size or needs.

• Whilst most claimed to make regular back up copies of data, very few kept a copy off the premises. During one visit it was revealed that back up copies could clearly not be made. The disk drive used for the purpose had been "broken for months".

• There was little thought given to training needs and staff were usually expected to "pick it up as they go along". Rarely were two people properly equipped to use the accounting software. This meant that if the main user left things would have ground to a halt.

• A number of charities used a computerised payroll agency. This was usually another voluntary sector organisation such as a community accountancy service or a council for voluntary service.

E. Trustee and management expertise

General Findings

In an organisation set up as a charitable trust, the trustees were more likely to have governance skills and to serve for longer. In an unincorporated association, with trustees elected, skills were less likely to be available.

The former probably occurs because a trust has the flexibility to select trustees with the requisite skills and expertise. In the latter, particularly in the most disadvantaged communities, this difficulty may be even more pronounced. Recognition needs to be given to people's ability to contribute on the basis of their personal experience and interests. However, finding a suitable blend of skills and experience to fulfil governance requirements can often be a stumbling block.

• Trustees and staff often did not recognise the organisation's legal structure making compliance with relevant legislation impossible.

• In many growing organisations, especially those with turnover between £150,000 – £250,000, managers had to carry out all financial tasks as well as their other managerial duties single-handedly.

• There were unrealistic expectations that an individual's capacity could match that of a growing organisation. This could result in personnel knowing a little about a lot, but being experts on nothing, often detracting from their effectiveness.

• Inadequate attention was paid to developing organisational infrastructure, especially in relation to financial management and accounting skills.

• Training of staff and trustees was often lacking in quality and too full of jargon.

• As one would expect, the larger the turnover of an organisation the more likely it was to be registered as a company with limited liability. It is interesting to note, however, that some of the largest organisations in the sample had remained as trusts. At one meeting, many participants were unclear of the legal structure of their organisation. There was also confusion over the definition of a trustee.

Conclusions and implications

A General

As a result of the local nature of its funding the majority of the Foundation's beneficiaries tend to be smaller groups, but problems were encountered across all sizes of organisations funded. Financial competence was generally lower in smaller groups; nevertheless serious problems were also encountered in larger groups.

The findings raise a number of issues which will be of considerable interest to others with a stake in the governance of charities. Consideration of the Foundation's approach to financial monitoring is addressed in Section 2. However the study findings appear to point to far wider problems for the voluntary sector and other stakeholders.

It is of course, important to develop a scale and detail of financial monitoring which is commensurate with the size of the organisation. Charitable bodies with more than two full-time equivalent employees and/or a turnover of over £100,000 clearly require a more elaborate set of accounting procedures than smaller organisations with less staff and income.

B Regulators

The Charity Commission should be concerned at the lack of understanding of the SORP. It would appear that many organisations do not understand or implement the SORP properly and too little help is being offered by the accountancy profession.

The accountancy profession must address the fact that its members are continuing to offer a service to their charity clients without ensuring that their own staff are properly trained in the accounting requirements of the SORP. This is resulting in often misleading or incomplete financial statements.

C Funders

Funders will hopefully take note of the major areas of weakness identified. They should look to see how they can reassure themselves about the management capacity of organisations they fund, and how they can assist them to develop successfully. **Funders should seek to resist the temptation to fund direct project costs to the exclusion of infrastructure costs such as financial management.**

Funders also need to help the viability of organisations by ensuring that they do not impose onerous conditions on the level or use of reserves, which could weaken a charity in the long run.

By working together, funders can assist the improvement of financial management within the groups they fund. They should discuss, evaluate and cooperate on financial monitoring techniques.

D Charities

Charities, both large and small, need to tackle financial governance more seriously. They need to realise that a lack of attention to this area can undermine their capacity to survive. They should review their financial systems and guard against the potential pitfalls outlined in the findings.

While it may be tempting to argue that organisations should be left to develop their own systems, the study suggests that the motivation to do this is lacking. Organisations tend to get by for as long as possible with their original ways of working. Little emphasis seems to be placed on infrastructure development – they argue that they are too busy providing services to beneficiaries. This is common, even among larger organisations. Therefore impetus for improvement may need to come from the funders and regulators.

The Implications for the Foundation

Section II

The need for financial monitoring

This section draws on the recommendations made to the Foundation.

Whilst the study was commissioned by the Foundation to help it improve its grant making and monitoring processes, the lessons here may also be of benefit to other funders.

The findings confirm the original concerns of the Foundation. The need for financial monitoring clearly exists: firstly, to ensure that organisations are capable of managing grants; secondly, to influence and encourage the development of their management capacity.

Poor financial management and governance can seriously weaken an organisation's capacity to survive, let alone utilise its grant effectively.

Certain deficiencies reduce the ability of organisations to function efficiently and dilute the effectiveness of grants. Examples include inadequate cashflow planning, which can paralyse an organisation; internal disputes caused by a lack of financial procedures and controls.

Other areas of poor governance can have a more direct impact on the Foundation and its grants. Lack of contents insurance could, in the event of theft, completely negate the benefit of a capital grant. Non-compliance with Inland Revenue legislation could result in penalties large enough to lead to the collapse of an organisation providing valuable services – in effect, its grant would be passed to the government. Inaccurate financial reports can lead to confusion and wrong decisions, often resulting in overspending and financial crises. Inadequate forward planning invites a funding crisis which may result in wrongful use of the grant to cover deficiencies. Lack of financial control leaves the door open for mismanagement of funds and increases the opportunity for fraud.

Areas to be strengthened

• At the application stage more emphasis should be placed on agreeing target levels for service provision. This would assist the monitoring of performance indicators to assess organisational effectiveness.

• When organisations are assessed, greater attention should be given to their financial management capacity.

• Consideration should be given to enhancing the financial skills and understanding of field officers, and to other methods of increasing the level of detailed financial assessment. Particular emphasis should be placed on monitoring compliance with conditions which are attached to funding. For example, the assessment of annual accounts submitted as a condition of funding should be improved.

• At the award stage, attention should be paid to ensuring that the exact purpose of the grant is made clear, particularly when the grant will meet only part of the costs required.

• The general conditions of funding should be made more specific so that organisations are clear about their responsibilities, and to encourage compliance.

Financial monitoring process – recommendations

The finances of an organisation cannot be viewed in isolation from the its aims and development. Consequently, financial monitoring needs to be integrated into overall monitoring and assessment procedures.

Financial monitoring will therefore have an impact on the staff and existing monitoring and assessment systems.

A Before the financial monitoring process begins, there should be:

• clear understanding of what will be measured through use of the monitoring process.

• a set of performance indicators agreed with each organisation before funding commences;

• an improved systematic process for collating information and assessing the findings;

• a policy on how the results of monitoring will affect those being monitored and those doing the monitoring.

B Financial monitoring duties need to be incorporated into existing posts or a new post needs to be established to provide the required level of financial expertise for monitoring to be fully effective.

Duties should include:

• developing and integrating financial monitoring into the Foundation's existing assessment procedures.

• examining and assessing all financial documentation received as part of the funding application, organisational assessment and monitoring procedures.

• ensuring that financial reports and other documentation are supplied by funded organisations in line with monitoring requirements.

• visiting and assessing the progress of organisations which, as a condition of funding, are required to develop areas of financial governance and management.

• preparing reports for trustees and relevant officers.

• providing support and advice to field officers on financial governance and management issues which arise in the course of their work with organisations.

• providing feedback to funded organisations arising from the results of financial monitoring.

• working closely with relevant officers to ensure that the Foundation's financial monitoring procedures are carried out effectively.

C The application, organisational assessment, grant award and monitoring procedures should incorporate the financial monitoring and evaluation process.

The overall system should be aimed at evaluating the effectiveness of grants made while encouraging the development of organisations. Where possible, the information required should come from an organisation's existing systems.

The following could be included:

• At the application stage financial information should be obtained from groups through:

(a) the completion of a standard form covering key financial data for the last two completed financial years, or since inception;

(b) a copy of the organisation's budget for the current financial year.

• The process for organisational assessment should include an initial assessment of the applicant's financial systems, using an appropriate check-list. It should include the collection of sample financial documents for further assessment. This will highlight weaknesses, with the aim of requiring improvement as a condition of funding. Consideration should be given to providing funding or other support to ensure that the problems are resolved.

• At the application stage target levels of achievement should be agreed. The setting of targets encourages applicants to plan ahead and consider how the work will be delivered.

• At the application stage applicants should give details of local, issue-based or other networks they will key into. This will encourage the applicant to investigate available support sources, and help to prevent isolation.

• Consideration should be given to the inclusion in the funding applications – especially for new groups – of a sum to cover training for trustees on key legal and financial responsibilities, controls and procedures.

• A thorough review of the conditions of funding should be carried out to ensure that they are updated to incorporate financial monitoring requirements.

D Field staff should receive appropriate training on financial issues
Field officers should be in a position to alert the Foundation to any potential problems and may need financial training to do this.

Training should also be arranged for the field officers in the setting of relevant service targets and performance indicators.

E Additional support should be provided for first time applicants in the form of introductory seminars.
The seminars should run following each round of grants awards and be available for up to two people from each organisation. They should cover a number of issues specific to the Foundation including conditions of funding, monitoring procedures and grant claiming procedures. In addition, trustees' responsibilities should be outlined and information about sources of support, advice and training should be given.

F Access to localised, high quality, low cost financial training should be available.
Financial training by and for voluntary sector agencies could be improved by making such training a funding priority. If agencies were to liaise with field staff, problems might be addressed more effectively. The underlying aim of such funding should be to improve the quality rather than just the quantity of local, low cost training courses.

The Foundation might also consider the funding of local development agencies to establish and run ‘Finance Forums” where none exist. These should be brought to the attention of the smallest groups which are often excluded from established networks.

G There should be collaboration between funders

The findings of this report might be used as a basis for developing a joint approach to financial and other monitoring with other funders. This will help funders generally to monitor more efficiently and to standardise the reporting requirements of funded organisations. This should help reduce the time and cost of monitoring for both funders and funded and further encourage the delivery of good quality services.

Appendix 1 The questionnaire

The text of the questionnaire:

(a) Is your organisation a Trust / Unincorporated Association / Industrial & Provident Society / Limited Company?
(b) Is your organisation a registered charity?

1 Planning
(a) Does your organisation prepare a budget for each financial year?
(b) If YES, what timescale and process is used to prepare and approve the budget:
(c) Does your organisation have a written fund-raising plan?
(d) If YES, how is the plan monitored and reviewed?
(e) Does your organisation have a reserves policy?
(f) If YES, what are the main elements of the policy?

2 Recording
(a) Do you use a manual (handwritten) accounting system?
(b) If YES, do you analyse receipts and payments using your budget headings?
(c) Do you use a nominal ledger?
(d) Do you use a computerised accounting system?
(e) If YES, what accounting software do you use?
(f) How often, and by whom, is a bank reconciliation statement prepared?
(g) Do you keep all supporting documents safely for future reference?
(h) Does your organisation operate a petty cash system?
(i) If YES, do you use the imprest (float) system to top up petty cash?
(j) How often, and by whom, is the Petty Cash Book balanced up?
(k) How many people have authorised access to the money in the Petty Cash box?

3 Reporting
(a) Are finance reports (or management accounts) prepared on a regular basis?
(b) If YES, how often are they prepared and what sort of accounting information do they contain?
(c) How do you make sure your Trustees and relevant staff know about the purpose and timescale for the use of each grant awarded to your organisation?
(d) For your accounting year 1996 / 97, will the organisation's accounts be:
Audited by a registered auditor? / Examined by an independent examiner? / Checked by an independent person? / None of these?
(e) Are the accounts prepared on the Receipts and Payments basis, or on the Accruals basis?
(f) Are you familiar with the new Statement of Recommended Practice (SORP)?
(g) If YES, in what ways have you needed to alter your bookkeeping or accounting procedures to comply with the SORP ?
(h) To which public bodies do you need to submit your annual accounts?

4 Controlling and authorising
(a) Who checks the accuracy of the bank reconciliation statements, and how often is this done?
(b) Who checks that the balance of petty cash shown in the Petty Cash Book agrees to the amount of cash held in the Petty Cash Box, and how often is this done?
(c) What procedures are used to make sure you claim all income due (including grant instalments)?
(d) List the current cheque signatories by name and position:
(e) How many people must sign each cheque, and what authorisation procedures are used before a cheque is signed?
(f) Apart from cash and cheques, are any other payment methods used?
(g) If YES, what other methods are used and how are they authorised?
(h) What authorisation procedures are needed to arrange a bank overdraft?

5 Safe guarding
(a) Does the organisation keep a register of major items of equipment, furniture, vehicles, computers etc. owned by the organisation?
(b) If YES, what headings does the register use (e.g. date purchased, cost etc.)?

(c) Does the organisation currently have any insurance policies in force?

(d) If YES, how do you make sure each policy provides the right level of cover?

(e) Does the organisation currently lease any property or equipment?

(f) If YES, who is authorised to sign a lease on the organisation's behalf?

(g) Do you use any extra recruitment procedures when selecting personnel (paid or unpaid) who will be handling finances?

(h) If YES, what extra procedures are used?

6 Communicating

(a) Please list all the people (by position) who are involved in the financial management of your organisation (e.g. treasurer, finance officer, volunteer bookkeeper, sub-committee, etc). Who reports to whom? What meetings are used to exchange information?

(b) Does your organisation have a written document (e.g. procedures manual) which sets out the duties of the people running the financial system?

(c) If YES, who is responsible for reviewing and revising it?

7 Please complete this section if you employ any staff

(a) Do you have an Employer's Liability insurance policy?

(b) How do you decide whether someone has the legal right to work for your organisation?

(c) How do you decide whether someone is employed or self employed?

(d) What checks and controls do you use to ensure that wages, tax and N.I. are correctly calculated and that all amounts due to the Inland Revenue are paid?

(e) Which of your employment terms and conditions (e.g. redundancy pay etc) may need to be met from unrestricted reserves?

8 Please complete this section if you use a computer for accounting purposes

(a) How do you prevent unauthorised access to the accounting software?

(b) What back up and protection procedures do you use to prevent loss or theft of data?

(c) Does your organisation use an electronic banking system?

9 Your grant from Trust for London or City Parochial Foundation

(a) Using information from your accounting records, can your organisation show clearly what the grant is being used for?

(b) What is the usual procedure for claiming each instalment of your grant?

(c) Do you consider that our grant administration procedures could be improved?
If YES, how could they be improved?

10 Getting help and advice

(a) Please name any sources of help that your organisation uses to develop financial systems and skills (e.g. titles of books, newsletters, training courses, advice organisations, conferences)

(b) As a result of completing this questionnaire, are there any areas of your financial system you would wish to develop further?

Thank you for completing the questionnaire. Please return it to Peter Fairbairn at the City Parochial Foundation in the stamped addressed envelope attached.

Appendix 2 Study statistics and questionnaire findings

Financial management systems

The questionnaire was sent to 70 organisations (42 funded by the City Parochial Foundation, 28 by the Trust For London). 59 replies were received

The organisations selected were grouped in one of four income bands:

Band 1	Very small	–	Less than £10,000 annual income
Band 2	Small	–	£10,000 to £100,000
Band 3	Small/medium	–	£100,000 to £250,000
Band 4	Medium	–	More than £250,000

Evaluation was carried out through a scoring mechanism. Each of the 18 elements of governance was assigned three levels of competence:

Low – A lack of most basic controls and procedures – in urgent need of assistance

Medium – Some elements of sound governance in place; needs further development of several areas

High – Most areas sound, one or two need developing

Each level was assigned a points value. Some elements had ‘weighted’ values to underline their importance to the basic financial governance of charities of all sizes.

The ‘competency rating’ of each organisation was then assigned according to its questionnaire score:

Competency ratings:	**Low**	**Medium**	**High**
Band 1	4	2	2
Band 2	4	14	2
Band 3	1	9	8
Band 4	0	5	8
Totals	9	30	20

Band 1 organisations have the lowest overall competency, while Band 2 organisations mostly fall into the medium competence category. The larger the organisation, the more developed its financial system is likely to be. It must be noted that Band 1 and 2 organisations make up approximately 60% of funded organisations, with Band 2 alone making up 40%; particular attention should therefore be paid to the financial governance of this Band.

Visits to organisations revealed that Band 2 organisations are most likely to over estimate their financial management capacity. Of the nine visited, two were reassigned to the ‘low’ competency rating. The overall outcome of the visits led to seven organisations having their scores increased with one moving up a level, and seven scores reduced with three moving down a level.

The number of organisations whose questionnaire responses did not accord with the visit findings suggests that the use of self assessment forms for financial monitoring purposes would not be effective.

Sources of advice, training and support

From the questionnaire and the discussion meetings, the following sources were mentioned as providing advice:

Auditor	17
Council for Voluntary Service	10
Charity Commission	7
Community Accountancy Service	7
FIAC	4
Refugee Council	3
Directory of Social Change	3
LVSC	2
NCVO	2

Financial management areas needing further development

From the questionnaire, the following were the areas of most concern:

Computerising the accounts	11
Fund-raising planning	5
Financial procedures manual	5
Recruitment procedures for finance staff	4
Fixed assets register	2

The Foundation's grants administration procedures

10 out of the 59 questionnaire respondents consider that the procedures could be improved:

- The need to complete a claim form prior to payment complicates the procedure; automatic quarterly payments should be made (4).
- The application and administration process is too slow and does not take the needs of small charities into account (3).
- A 'schedule of claims dates', specific to each grant, would be helpful (1).
- The 'request for next instalment' form should show the date when it is due to be received by the Foundation (1)
- All procedures can be improved using the benefits of new technology, but any changes need to be cost effective and user friendly (1).

Income Bands:	**1: Under £10K**	**2: £10K–£100K**	**3: £100K–250K**	**4: Over £250K**	**Total**
Questionnaires returned:	8	20	18	13	59
Charity Status					
Registered	5	18	17	12	52
Unregistered	3	2	1	1	7
Legal Structure:					
Unincorporated Assoc.	6	10	2		18
Trust		2	2	3	7
Ind. & Provident Society			1	1	2
Limited Company		4	12	9	25
No response	2	4	1		7
	8	**20**	**18**	**13**	**59**
Annual Budget prepared	**6**	**18**	**18**	**13**	**55**
Written Fundraising plan	**5**	**6**	**10**	**6**	**27**
Reserves policy	**0**	**4**	**8**	**7**	**19**
Accounting system					
Manual accounting system	8	16	7	6	37
Computerised system		1	7	3	11
Combination of both		3	4	4	11
	8	**20**	**18**	**13**	**59**
Bank Reconciliation:					
Monthly	5	12	17	12	46
At least quarterly	1	4	1		6
Less than quarterly	2	3			5
No response		1		1	2
	8	**20**	**18**	**13**	**59**
Financial Reports:					
Monthly	1	7	8	4	20
At least quarterly	4	7	10	9	30
Less than quarterly	2	2			4
Not done	1	3			4
No response		1			1
	8	**20**	**18**	**13**	**59**
1996/97 Accounts to be:					
Audited by registered auditor	3	16	18	13	50
Independently examined	1	4			5
Checked by independent person	4				4
	8	**20**	**18**	**13**	**59**
1996/97 Accounts basis:					
Receipts and Payments basis	6	12	2	2	22
Accruals basis	1	7	11	10	29
No Response	1	1	5	1	8
	8	**20**	**18**	**13**	**59**
Familiar with the SORP	2	9	11	13	35
Fixed assets register	5	12	11	9	37
Insurance policy in place	3	19	18	13	53
Would like to develop further financial system	4	12	11	6	33

Appendix 3 Participants comments

During the study, participants were asked to identify barriers to development and ways of moving forward. Their ideas may assist funders, regulators and voluntary organisations to find new ways of improving financial governance for the future.

A Barriers to development

Planning and communication:

Lack of time given to/available for forward planning

Lack of time given to/available for discussion of important issues

Inadequate pre-meeting preparation by trustees

Language barriers

Financial reports not circulated in advance of trustees' meetings

Lack of continuity of a trustee body (i.e. composition often changes annually, combined with irregular attendance at meetings)

Training advice and information:

No budget identified for trustee training

Trustees too busy to attend training

Training courses not appropriate because:
– Times don't suit working trustees (i.e. daytime/ weekday courses)

– Lack of childcare provision on courses

– Language barriers

– Training not relevant to trustee needs

Charity Commission publications too wordy and difficult to understand.

B Ways to improve financial management and governance

Training:

Build trustee training costs into budget

Encourage the provision of low cost training

Utilise local training venues

Arrange relevant training for a number of groups in an area (borough) – this also encourages networking

Provide practical, hands-on training

Provide post-training support to build confidence

Provide short (2/3 hour) courses to facilitate trustee attendance

Consider computer "taster training" (e.g. to see how 3 different packages work)

Look for small grants for trustee and staff training, and for consultancy

Funders should run introductory seminars for first time grant recipients

Include short informative training sessions before the start of trustee meetings

Discuss relevant training undertaken – others may develop an interest themselves.

Advice and information:

Production of a sample financial procedures check list would be helpful

Ensure groups are aware of existing networks and umbrella organisations

Provide accurate, up to date resource listings (e.g. training courses, advice sources, relevant books)

Ask auditor/accountant to come and explain to trustees what annual accounts really mean.

Consider buying in appropriate expertise as needed (e.g. accountants, payroll services)

Use high quality consultants – they provide better value for money

Trustees are more likely to pay attention to an outside consultant than to staff or other trustees

Produce concise information sheets and discuss them with all trustees - this helps to ensure they read and understand them.

Encourage the Charity Commission to work with the Inland Revenue to produce a leaflet on remuneration issues, including payments to volunteers, trustees and casual staff - combining Charity and Inland Revenue law

Ensure your auditor is thoroughly conversant with the Charities Act and the SORP.

C Finding and managing trustees and staff:
Aim for a blend of abilities -e.g legal, financial, language

Use business community to find English speakers with expertise

Encourage trustee communication to reveal hidden talents/skills

Build trustee confidence by involving them in simple tasks at first and enabling them to grow and develop their skills

Do not intimidate new trustees with jargon – keep it simple

Ensure all relevant information is provided to all trustees

Involve trustees in setting aims and budgets so everyone is clear what the organisation is trying to achieve

Hold regular planning days/events to build understanding and commitment

Use practical tests when recruiting finance staff.

Ensure all staff are equipped with the necessary skills, experience and support to provide effective financial management

Hold exit interviews with trustees to identify reasons for leaving

Appendix 4 The Foundation's current procedures

Initial approach for funding

Organisations wanting to apply for a grant are required to discuss the proposed application with the Clerk or a Field Officer or to submit an outline application along with their latest annual accounts. At this stage the field staff decide whether the application falls within current funding policies.

Assessment process

If it does, the relevant field officer will formally discuss the application with the organisation. The field officer will also visit to carry out an assessment of the organisation. Part of this process includes the examination of accounting and other records, using a check-list for guidance.

Formal application procedure

If the field officer is satisfied with both the proposal for funding and the ability of the organisation to carry out the proposed work then, the organisation either completes the official application form (TFL) or submits an application containing the funding proposal and other information (CPF). The latter includes: full costings of the proposal, a precise outline of the group's financial position and a budget for the current and next financial year (where available). It is also required to fill in a data sheet which must be authorised by one of its senior trustees.

The field officer then prepares a written report for consideration by the Foundation's Trustees.

Awards

At Grants Committee meetings, the field officers present their reports to the Trustees. Decisions are taken by the Trustees on whether funding is awarded, its level, duration, and whether any special conditions should be attached to the grant.

Conditions of funding

Organisations are contacted with a letter offering them the grant. With this letter are instructions of how they should claim their grant, details of the monitoring process and the conditions attached to the grant offer. Organisations are required to agree formally to the conditions of funding and return a copy to the Foundation. They must take up the grant offer within two years.

Monitoring

Monitoring is carried out, principally in two ways: passive (office based) monitoring, from reports submitted, and active monitoring carried out according to the size of grant awarded. A self monitoring form, which comprises the main monitoring tool, is issued to many organisations; this form contains no reference to financial matters, though one of the conditions of grants is that financial statements are submitted annually to the Foundation.

Payments procedures

Grants are paid by quarterly instalments on receipt of a standard claim form which is provided by the Foundation. The form must be signed by an authorised signatory as detailed on a datasheet, which is completed before the grant is awarded. Payment is made direct to the organisation's bank account, details of which are shown on the claim form. The signatory signs a declaration saying that the bank details are correct and the conditions of the grant are being met. If annual accounts are not received from the organisation the payment of the grant is withheld.