Volume 2: Financial Management

For Community and Voluntary Groups

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government supporting communities


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Oil and Gas
Finance
Air transport
Chemical production
Industrials
Nuclear energy industry
Securities
Electronic commerce
Telecommunications
6,61%
1236; 16%
1 April 2009
1 May 2009

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Introduction

Good financial management helps an organisation to plan and achieve its goals.

The aim of this guide is to assist organisations in achieving control over their finances and specifically to establish good financial practices. Good practices ensure that all activities are fully and accurately accounted for and that the books of account and supporting documentation are transparent.

Financial training should be an integral part of the organisation's overall training plan to ensure that all staff members understand the need to follow good financial practices. As well as staff, the Board/Management Committee should receive this financial training as they have ultimate responsibility for the finances of an organisation.

Although it is appreciated that community and voluntary organisations may have less non-grant/trading income than the private sector, good financial management and practices of the private sector are still applicable to the Community and Voluntary sector. Some of the terminology involved may be new or daunting to Board members with a non-financial background, however, it is recommended that companies and their Board Members take time to understand, and familiarise themselves with, basic financial terminology.

What is Financial Management?

Financial management is the use of financial information, skills and methods to make the best use of an organisation's resources.

Having significant resources or a complex accounting system doesn't always result in good management and long term success. Just as our personal health depends on our behaviour, so the financial health of the organisation depends on management behaviour– policies, practices and procedures.

Though there may be occasional deficits, or periods of tight cash flow, the following characteristics are good signs that your organisation is being properly financially managed and will (most likely) be financially healthy over the long term:

Board of Directors

- Board of directors (and management team) hold themselves responsible for long term stability in both service and financial performance.
- Each Board member understands their roles and responsibilities in financial matters.
- The Board and management team regularly review short-term and long-term plans and develop goals and strategies for the future.
- A realistic and well-considered budget is prepared and approved by the Board.

Management Team

- Management team (and the Board) monitor actual financial results as compared to the budget and modify activities (with agreement from funders) in response to variances (underspend or overspend).
- Management team is committed to compliance with all required legal and funder reporting requirements.
- Management team realistically plans and monitors cash flow so as to be able to meet obligations.
- Budgets are prepared in tandem with planning for operating needs.

Staff

- Consistent, accurate and timely financial reports are prepared and analysed by competent individuals.
- Policies are established for major financial decisions and adequate and appropriate internal controls.
- Appropriate staff with financial expertise are given responsibility for the financial administration/ management of funds.

The key to successful Financial Management is to develop and adhere to good, simple, quality practices and procedures

Four elements to effective Financial Management

Internal Financial Procedures Manual

The Internal Financial Procedures Manual brings together all the financial policies and procedures which guide your organisation's operations and lays out how it uses and manages its funds. It helps to establish financial controls within the organisation that ensure accuracy, timeliness and completeness of financial information. There is no one model of an Internal Financial Procedures Manual. Each will depend on the needs and structure of your organisation.

It is imperative that, once agreed at Board level, an organisation's financial policies and procedures are rigidly adhered to. The Internal Financial Procedures Manual must be regularly reviewed and revised to reflect the organisation's current circumstances.

How your organisation can maintain strong Financial Management

Basic financial skills are essential in order to keep accounting records and to provide financial information that is required by law. If financial management skills are shared throughout your organisation (with overall responsibility with the Board/ Management Committee), they can also lead to empowered staff, better overall quality and improved sustainability.

Financial skills required include :

- Bookkeeping
- Budgeting
- Financial Management
- Report Writing
- Analytical
- Communication
- Professional Accountancy qualification i.e. ACA, IATI...

Your organisation needs to have in place, and maintain, a robust financial system that provides a record and account of all your financial activities by:

- Giving regular financial reports to all those who have a right to know what your organisation is doing with its funds (i.e. your stakeholders)
- Accounting for funds by documenting proof of receipts and payments
- Showing that the money is being spent for the purpose it was intended
- Not taking on financial obligations it cannot meet
- Taking all necessary precautions to prevent inappropriate use of funds and ensure that there are good controls that safeguard you and any staff
- Planning for the future.

Some basic self-evaluation to get you started…

- Do you use a financial management system that is effective in showing your cashflow i.e. how your finances are spent and how they are generated? If the answer is no, how have you been managing your finances?

- Are you aware of the four stages of financial management, which must be regularly reviewed – planning, book keeping, controls and reporting?

- Have you developed policies and procedures which incorporate the recommended four elements of financial management?

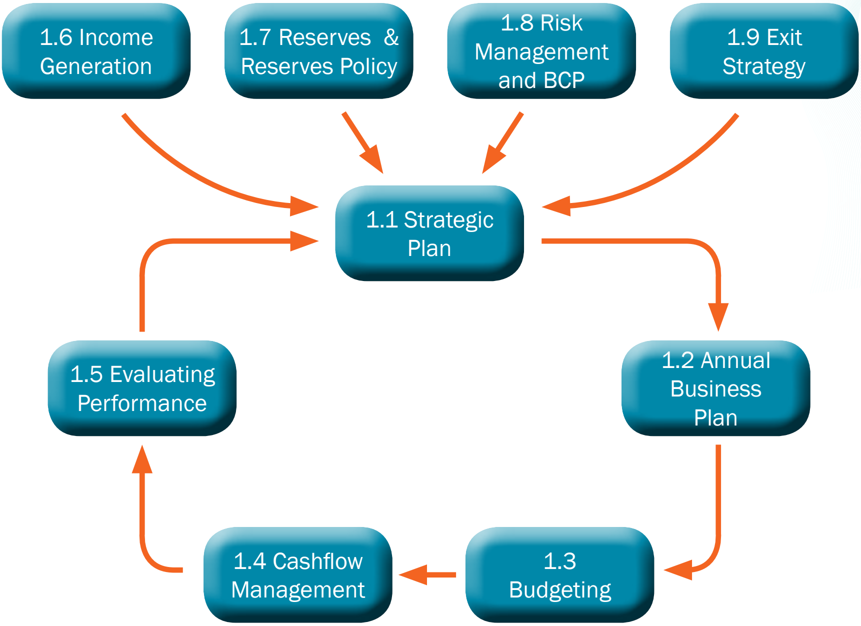
- Are your financial systems allowing you, your Board and staff (as appropriate), get an overall picture of your financial position?

- Take the time to note down lessons you could learn from past and present actions which will help you plan for a more sustainable future.

1. Planning and Budgeting

There are a number of steps you need to take to properly plan and set budgets for your organisation.
This section will help you to:

- Plan your long term and short term organisational objectives
- Manage budgets, cashflows and understand your costs
- Consider income generation and your reserves policy
- Consider risk management and business continuity
- Monitor actual performance against the original plan
- Consider strategies to manage the cessation of short term funding



1.1 Strategic Plan

What is it?

This is where an organisation plans its future. It is the process where an organisation defines its direction and makes decisions on allocating resources to pursue this strategy i.e. funding, staff resources etc. The primary responsibility of a Board of Directors is strategic planning to effectively lead the organisation. Strategic planning should be carried out frequently in the organisation e.g. prepare a 3 year strategic plan, with annual business plan prepared to ensure goals and objectives will be achieved. Strategic planning may be required on a more regular basis during times of uncertainty e.g. economic downturn.

Why do it?

- Clearly defines the purpose of an organisation and establishes realistic goals and objectives consistent with that mission within a defined timeframe.
- Communicates those goals and objectives to the organisation's stakeholders.
- Develops a sense of ownership of the plan.
- Ensures the most effective use is made of the organisation's resources by focusing on key priorities.
- Provides a base on which progress is measured and establishes a mechanism to revise appropriately.
- Provides clear focus for the organisation, more efficient and effective organisation.
- Bridges staff and management boards, building strong teams through common vision.

How?

Step 1: Develop an understanding of your vision and mission by asking and answering a number of key questions :

- What do we do?
- Who do we do it for?
- Where are we currently?
- What is our vision for the organisation?
- What are our key goals and objectives?
- How do we achieve these goals and objectives e.g. roadmap?

Step 2: A number of business analysis techniques can be used to carry out an analysis of your operations and its environment, to determine the internal and external forces that will impact on the organisation achieving its vision. These include Strength, Weaknesses, Opportunities and Threats (S.W.O.T) analysis and Political, Economic, Social, Technological, Legal, and Environmental (P.E.S.T.L.E) analysis.

Step 3: Formulate actions and processes to achieve your goals and objectives. Distinguish between short term and long term objectives. All goals and objectives should be SMART i.e. Specific, Measurable, Achievable, Realistic and Timely.

Step 4: Implementation of the agreed actions and processes with specific responsibilities and timelines.

Step 5: Develop a business plan (annual plan) which includes strategic goals, objectives, responsibilities, and timelines in the coming year.

Step 6: Monitoring and evaluating is as important as identifying strategic goals.

1.2 Annual Business Plan

What is it?

The main aim of your annual business plan is to implement the strategy for your business. This should include a clear financial picture of where you stand - and expect to stand - over the coming year.

Why do it?

A good, well-organised business plan will tell you if your ideas make sense.

- It will act as a map for the business.
- It will assist you with management control.
- It will highlight possible problems that may arise.
- It will help you brief key employees.
- It will help you secure finance.

How?

- Review your current performance against last year/current year targets.
- Work out your opportunities and threats.
- Analyse your successes and failures during the previous year.
- Look at your key objectives for the coming year and change or re-establish your longer-term planning.
- Identify and refine the resource implications of your review and build a budget.
- Define the new financial year's

profit-and-loss and balance-sheet targets.
- Conclude the plan.
- Review it regularly.
- Go back to step 1.

1.3 Budgeting

What is it?

A budget is a planning tool and it generally comprises of information on income, expenses, assets, liabilities and cashflows.

Why do it?

- Set objectives in financial terms
- Assign executive responsibility
- Plan the activities to achieve the objectives
- Compare actual results against the plan using a Budget Statement (see opposite)
- Take corrective action
- Review and revise plans in the light of changes
- Put 'budget monitoring' on all committee members' agendas.

Tips for Budgeting

1. Budgets should be completed and approved by the Board prior to the start of your financial year. They should reflect the objectives and intended activities for the forthcoming year.

2. Setting the budget in a clear way can point to actions that are needed such as additional fundraising or reducing costs on planned activities.

3. Once completed the budget should be signed off and approved by your Board. Staff should be made aware of the objectives and funding available to meet them.

4. Monthly finance meetings should be held (with 1-2 Board Members present).

5. Once the financial year starts, maintain a Budget Statement to compare budgeted spend to actual on a monthly or quarterly basis, examining any significant variances that may arise.

How?

- **Set objectives**. From the strategic plan and annual business plan you have clearly defined what is it you want to achieve in the coming year.

- **Set agreed budget allocations (€)** per budget heading for the year ahead i.e. wage costs {including employer costs}, project costs, administration, utility costs, equipment etc.

- **Identify operating costs.** Understanding your current operating costs (e.g. salaries {including employer costs}, overheads {rent, light, heat etc.} and action costs {materials, venue hire etc.}) is an important step to building a financially sound organisation. It allows you to make realistic projections on future cost.

***General Tip** - the more cost headings used (i.e. the more detailed the breakdown), the greater your organisation's ability to analyse where the bulk of your costs are, which in turn will help inform strategic decisions for future spending.*

The importance of a Budget Statement

A Budget Statement compares your original budget with actual expenditure over a period of time. It highlights areas where the organisation has either over or under spent along your budget lines and forces the organisation to understand the reasons for this.

Questions to ask

- Were budgets set correctly at the start of year?
- If yes, why is there such a large variance in expected expenditure?
- Have all budgeted activities been undertaken? If not, why not?
- Have suppliers amended their prices? Is it time to seek new suppliers?
- Has some unexpected event occurred that affected budgeted spend v actual spend?
- Should budgets be adjusted (following approval of the donor) to allow the under-spend from one budget line to meet the over-spend in another cost?

Failure to react to variances highlighted in your budgeted statement could lead to:

- Shortfalls in available funding later in the year
- Cancellation or delaying of some intended activities
- Underspent budget for the year.
- Highlight errors in your original forecasting

All of which will have a negative impact on the sustainability of your organisation.

1.4 Cashflow Management

What is it?

Cashflow management is the management of financial inflows and outflows throughout an accounting year.

Why do it?

Cashflow management allows you to:

- Estimate if you have enough cash to pay bills as they fall due.
- Highlight if you may need to avail of a temporary overdraft facility.
- Renegotiate when bills are paid (while staying within relevant payment regulations).
- Consider new capital items that may need to be purchased
- Delay the commencement of planned activities.

How?

Cashflow Management involves the preparation of a cashflow projection. A cashflow projection expands your budget calculations to incorporate monthly cash movements. This will give an estimated end of month cash balance.

Tips for preparing cashflow projections

1. Keep it relevant - one of the simplest ways to prepare your cash flow budget is to start with last year's actual spend, making any necessary adjustments for inflation, or any other changes you have planned for this year such as new staff, incremental pay rises etc.
2. If starting from new, prepare your cash flow budget for approx. 6 months ahead. This should minimise guesswork and keep information relevant.
3. Have several budget projections, including best case, worst case, and most likely scenarios. Think about how this could affect the on-going sustainability of your organisation.

Consider this…

If you find your projections are leading to a negative cash flow ask yourself the following:

- *Can staff become more flexible to change their hours to suit the organisation's needs?*
- *Can you source cheaper suppliers?*
- *Can your organisation generate income to supplement established sources of income?*

1.5 Evaluating Performance

What is it?

Evaluation is the comparison of actual outcomes against strategic plans. It looks at original objectives, at what was accomplished and how it was accomplished.

Why do it?

- To ensure that the organisation is following the direction established during strategic planning.
- Allows management to learn about the organisation and how to manage it by continuing to evaluate the planning activities.

How?

- Define the Key Performance Indicators (KPIs) to be measured.
- Define target values for those KPIs.
- Perform measurements.
- Compare measured results to pre-defined standards.
- Make necessary changes.

Key Performance Indicators (KPIs) help organisations understand how well they are performing in relation to their strategic goals and objectives. KPIs are targets which should be achieved at various stages during the implementation of a plan. Choosing the right KPIs is reliant upon having a good understanding of what is important to the organisation.

Changing the plan as necessary during implementation

Planning is an active process. Planners should understand the reason for any deviations and update the plan to reflect the new direction. Procedures should be in place to rigorously interrogate proposed changes to plans. The changes to expected outcomes and cashflows etc. should be fully documented.

Significant changes to strategy,

structure or policies should be done carefully and should be authorised by the Board.

1.6 Income Generation

Organisations should ensure that income generated is spent in line with any funding contractual arrangements and the strategic objectives of the organisation. Funding contracts should stipulate how funding and income generated from such funding can be used and organisations should be made aware at contract stage of the potential sanctions for breaching the rules.

An Income Generation Policy should be in place for those organisations involved in Income Generation. The quality of the Income Generation Policy can indicate the organisation's capacity and ability to safeguard grant funding.

1.7 Reserves and Reserves Policy

What is it?

Reserves

Reserves can be described as funds set aside or saved for future use and which can arise from retained profits, revaluation of assets and other surplus sums.

The balance sheet of the annual audited financial statements will show the Total Reserves that an organisation holds as at the balance sheet date. This Total Reserves figure may be made up of Capital Reserves and Revenue Reserves (which may be 'restricted or 'unrestricted').

Reserves Policy

A Reserves Policy is a part of contingency planning and documents clearly the levels of (unrestricted) reserves that an organisation should have and why, how these reserves should be built up and how these reserves should be spent. It is the responsibility of the Board of Directors/ Management Committee to set an appropriate level of Reserves for the organisation. The Policy should be reviewed and approved annually by the Board of Directors/Management Committee.

Why?

Reserves

- To fund working capital i.e. due to an increase in the level of

creditors.
- To fund asset replacement i.e. new computers, machinery etc.
- To fund unexpected expenditure i.e. redundancy costs.
- To fund shortfalls in income i.e. reduced grant funding.

Reserves Policy

- Ensures transparency and accountability of public funding.
- Is a key element of the strategic plan.
- Feeds into the budgeting and decision-making process.
- Focuses the fundraising activities.
- Can justify why further public or grant funding should be awarded.
- Shows an organisation being responsible to considering threats, risks, challenges and priorities to meeting the service or supports provided.

How?

- Review existing funds.
- Analyse income streams.
- Analyse expenditure and cash flows.
- Analyse the need for reserves.
- Calculate the reserves level.
- Formulate reserves policy.
- Presentation of reserves policy to the Board/Management Committee.
- Regular review and approval of reserves policy.

A Reserves Policy should cover:
- The reasons why the organisation needs reserves.
- The level/range of reserves the Board believes the organisation needs.
- What steps the organisation is going to take to establish/maintain the reserves at the agreed level/range.
- Arrangements for monitoring and reviewing the policy.
- Criteria and procedure for utilising the organisation's reserves.

1.8 Risk Management and Business Continuity Planning

Risk Management

What is it?

Risk

Risk is the chance that, while you are working to achieve your goals and objectives, something goes wrong that affects the organisation and your ability to achieve your objectives. Risks can be classified as strategic, financial, operational and reputational.

Risk management

- Identifying the likely risk.
- Working out which risks are important enough to be concerned about.
- Putting in place measures to reduce the chances of harmful effects to your organisation.

How?

Management should try to balance the impact of risk with the likelihood of risk occurring within their organisations and act accordingly. For example :

- If the likelihood of the risk occurring is high and the impact of the risk on the organisation is high => this risk should be avoided
- If the likelihood of the risk occurring is high and the impact of the risk on the organisation is low => controls should be introduced to reduce/highlight occurrence of the risk

Risk Register

A Risk Register is a risk management tool used in organisational risk assessments. It acts as a central repository for all risks identified by the organisation and, for each risk, includes information such as a description of the risk, risk probability, impact, planned response/counter-measures, risk owner, etc.

Risk management is an ongoing process. A risk assessment should be carried out at regular intervals during the year. It is particularly important as part of the planning/ budgeting process.

Sample Risk Register

RISK	RECOMMENDED MANAGEMENT CONTROL(S)	RISK LEVEL	IMPACT	PLANNED RESPONSE	RISK OWNER
Strategic Risk					
Financial					
Operational					
Reputational					

Business Continuity Planning (BCP)

What is it?

BCP is a roadmap for continuing operations under adverse conditions such as:

- Local events e.g. building fires, theft, vandalism, IT damage/ failure, redundancy
- Regional events e.g. floods
- National events e.g. pandemic illnesses

Why do it?

To ensure continued operations in the event of a disruption, whether due to a major disaster or a minor incident.

How?

- Know the critical functions of your organisation i.e. those functions without which it would cease to operate.
- Consider the hazards that could affect your organisation and the critical functions within it.
- Formulate the plan for preventing

these hazards occurring and for responding to emergencies

a. Inform staff

b. Keep a log of actions taken

- Test the plan and review it regularly

1.9 Exit Strategy

What is it?

This is a strategy to manage the cessation of funding. Your exit strategy could indicate how future funding will be provided, what form that funding will take, how your organisational capacity will be built, and how future sustainability or mainstreaming will be pursued.

Why do it?

If the organisation wishes to carry on this activity after the grant period has expired, they should develop an exit strategy to manage the cessation of the funding.

How?

- Organisations should formulate their exit strategy based on their own particular circumstances whilst taking account of the current economic climate.
- An exit strategy should be a pathway or a series of steps that should be strategically planned by the project when it applies for funding.
- Examine the issues of sustainability (internal) and mainstreaming (external) for when the grant period has expired.

2. Financial Bookkeeping

Poor financial management is often the result of the lack of, or total absence of, good financial bookkeeping. The main objective is to have a record of all financial transactions in a way that makes them easily accessible and that provides an accurate picture of your organisation's financial position. The golden rule of record keeping is to keep and record all income received and all payments made. These will form the basis for your financial and account record keeping.

Financial records enable you to track your progress towards your goals and provide you with the information needed to make decisions.

2.1 Steps to Successful Bookkeeping

Introducing monthly accounting routines helps to ensure that the level of record keeping covers everything your organisation needs. They need not be too complicated and should reflect the size of your organisation and fulfil the information you are required to keep for any funding body, your accountant and any possible audit you may undergo.

Top Tips for Bookkeeping

- Keep all original invoices and receipts. For invoices write date paid and cheque/EFT number on face of invoice. File in cheque/EFT number order.

- Print off hard copies of your cheque payment journal, cash receipts book and bank reconciliation on a monthly basis. Ensure two members of staff sign the hard copies as evidence of the preparer and reviewer and keep on file. This acts as a useful backup if operating an accounting package.

- Do not lose track of monies owed to you, or owed by you. Keep clear records of all outstanding debtors and creditors.

- Make sure more than one person understands the financial records well enough, should the main finance person not be available.

- Do not keep large amounts of cash on the premises (petty cash should be stored in a safe or locked box). Bank lodgements should be made routinely and monies should be lodged in total for each day to allow easy reconciliation to your sales data.

- Update, compare and revise your budget statement and cashflow with actual income and expenditure details as the year progresses.

Daybooks

A daybook is a descriptive and chronological record of day-to-day financial transactions also called a *book of original entry*. Daybooks must be maintained if your organisation keeps manual records and are also beneficial if an accounting package is used within an organisation. Daybooks include:

- **Sales daybook,** for recording all the sales invoices.
- **Sales credits daybook**, for recording all the sales credit notes.
- **Purchases daybook**, for recording all the purchase invoices.
- **Purchases credits daybook**, for recording all the purchase credit notes.
- **Cash daybook**, usually known as the cash book, for recording all money received as well as money paid out. It may be split into two daybooks: receipts daybook for money received in, and payments daybook for money paid out.
- **Petty Cash daybook**, for recording small value purchases paid for by cash.
- **Cheque Payments Journal** is a chronological list of all cheques, EFTs or direct debits that have been paid by an organisation.
- **Receipts Book** should be used for recording all money received into the organisation (see more information at Section 3.3).

2.2 Accounting Packages

Computerised accounting packages can be used for all the important financial transactions in your organisation and provide you with critical information about your organisation.

To get the right package for your organisation, you need to define your requirements and match them to the available packages. Expert advice should be sought to ensure the package, most appropriate to your circumstances is selected.

You need to consider what resources you have available to **set up, install and maintain your accounting package**. You need resources available that you can rely on to input data, manipulate data, extract data, analyse information and resolve problems you may experience with your accounting package.

2.3 Comparison of Cash vs. Accrual accounting

The two primary accounting methods are the ***cash*** and the ***accruals*** basis - the difference being primarily one of timing and the organisation must maintain a consistent method of accounting from year to year.

It is the organisation's responsibility to choose the accounting method most suitable to your organisation. Advice could be sought from your accountant/auditor.

2.4 Apportionment of Costs

Where an organisation is managing a number of activities or projects, there will be certain costs that are directly attributable to a particular activity (i.e. participant tuition fees, course materials etc.) and there may be central costs that are common to the whole organisation (audit fees, rent and rates, insurance etc). Apportionment means sharing out central costs properly and fairly between the various projects / activities being delivered by the organisation in a logical manner.

An organisation should only ever have one Apportionment Policy in place.

It is important to:

- Choose an appropriate method for apportioning costs (approved by management and/or Board) which truly reflects the usage of costs
- Apply the method/s chosen consistently
- Have a written explanation/

rationale for the method/s chosen

Allocating your costs means reasonably splitting costs that are shared among different people or different activities. To do this, you need to determine the 'driver' of each type of cost, i.e. the factor(s) which affect whether the cost increases or decreases.

Here are 3 ways generally used to allocate costs:

1. **Allocating costs by headcount** (or number of staff). For example, if you employ a total of 10 staff, that share all the rent and rates costs, and two work on a particular project you might allocate 20% (2 divided by 10) of the rent and rates costs to that project.

2. **Allocating costs by floor space.** It might be difficult to apportion costs based on headcount if you have a high proportion of part-time or volunteer staff. In this case, floor space might be a useful alternative (i.e. allocating costs based on the floor space where different projects work from specific areas of a premises).

3. **Allocating costs by time.** This is a way of allocating your costs based on the amount of time spent by particular people supporting a project. The amount of time spent on each project would be captured by the use of detailed timesheets, which are reviewed and signed off as evidence of approval.

The organisation should select a method that they believe is *most appropriate* to the costs being apportioned and which results in a fair and equitable allocation of costs to each project / activity. Organisations must be able to stand over their apportionment methods and justify the rationale for using such methodology supported by actual documentation (e.g. signed timesheets, floor plan etc.) Organisations should keep their apportionment policy under review as the circumstances within the organisation could change throughout the year.

2.5 Accounts – Financial vs. Management

There are two broad types of accounting information:

- *Financial Accounts* - geared toward external users of accounting information
- *Management Accounts* - aimed more at internal users of accounting information

Although there is a difference in the type of information presented in financial and management accounts, the underlying objective is the same - to satisfy the information needs of the user.

2.6 Taxation

The impact of taxation on your organisation can be complex. If you're in doubt on how to deal with any taxation issue, seek advice from your tax advisor/auditor/accountant or from your local Revenue office or at www.revenue.ie.

Areas of taxation that may impact on an organisation are:

- Value Added Tax (VAT)
- PAYE (see section 5)
- Corporation Tax

2.7 Retention of Records

Organisations are required to retain all records after the cessation of funding/activities in line with legal/ funder regulations. It is the organisation's responsibility to be aware of the length of time records (relating to various stakeholders) must be retained. This information should be obtained from your accountant/auditor, donor, revenue etc. In no circumstances should any of the documentation be destroyed or otherwise disposed of before the relevant retention period has expired or without the prior consent of the relevant party.

2.8 Fixed Assets

A Fixed Asset is a long-term tangible piece of property/object that an organisation owns and uses in the production of its income and is not expected to be consumed or converted into cash in the short-term.

Depreciation is a non-cash expense that reduces the value of an asset as a result of wear and tear, age, or obsolescence. Most assets lose their value over time (in other words, they depreciate) and can be replaced once the end of their useful life is reached.

Maintaining a Fixed Asset Register (FAR)

A FAR allows an organisation to record and keep track of details of each fixed asset, ensuring control and preventing misappropriation of assets. It also keeps track of the correct value of assets, which allows for computation of depreciation and for tax and insurance purposes. If maintained correctly, the FAR can generate accurate, complete and customised reports that suit the needs of management.

Transfer of Assets in the event of ceasing an activity or wind up of an organisation

Any premises or assets acquired using public funding is not to be disposed of or otherwise sold without the consent of the relevant donor within a defined time period. Any funds realised from the sale of these assets must continue to be used by the organisation in accordance with the terms of their contract with public funders.

Lease Agreements

A lease is a legal contract representing a conveyance of ownership rights to property. Organisations should have a signed lease in place for all property rentals. As a result of the lease, the owner (lessor) grants the use of the stated property to the lessee.

3. Financial Controls

What is it?

Financial controls are the written rules and procedures that inform staff and management what should happen – who can do it, when and how. They are the financial and management systems which aim to protect your organisation's property and reputation and minimise the risk of error and theft. It is the responsibility of the Board of Management to ensure there are good financial controls in place.

Why?

Financial controls are needed to demonstrate to management, stakeholders and funding bodies that effective and proper use is being made of all funding received. Financial Controls serve as an organisation's safety net for compliance with rules, regulations, and overall best business practices.

Tips for Good Financial Controls

- Know the importance of allocating and separating out financial duties.
- Keep cash, cheque books and personal information safe and secure.
- Staff should have the appropriate level of financial skills.
- Maintain a fixed asset register.
- Keep all Board/Management Committee minutes, clearly document any decisions made at meetings.
- Keep documented controls relevant and ensure staff understand their importance.
- Be aware of the possibility of fraud – make staff aware of policies in relation to reporting and detection of fraud.

How?

It is essential that adequate financial controls are in place to ensure :

- All income has been collected in full
- Income is kept securely until banked
- All income and expenditure is properly recorded in an organisation's books and records.

An Internal Financial Procedures Manual should document the financial controls adopted by an organisation.

3.1 Key Financial Controls

Financial Controls should be in place for all the important aspects of your organisation and these include :

- Banking
- Record Keeping
- Cash Handling
- Prevention of Fraud
- Tax Clearance Certificate
- Sub-Contractor Tax Clearance
- Service Level Agreements

3.2 Banking

- The Board should formally approve and minute the opening and closing of accounts, changes to cheque signatories and authorisation limits.
- An up to date Bank Mandate should be kept in the organisation's files.
- All cheques must be signed by at least two signatories.
- Signatories should not sign cheques payable to themselves.
- Signatories should never sign blank cheques.
- Signatories should only sign cheques where the appropriate back up documentation is provided.
- Signatories should never sign cheques for cash (exception - petty cash reimbursements).
- Cheque stationery should be held securely.

3.3 Record Keeping

All organisations should maintain proper books of account to record the day to day transactions of the business. See further details in Chapter 2 "Financial Bookkeeping" of this Toolkit.

Particular note should be taken of the points made below :

Receipts Book

- The organisation should maintain a record of all income received in a Cash Book/Receipts Book.
- The Receipts Book should record the date of receipt, the date of lodgement, details of the source of the income, the amount received and the bank account to which the amount was lodged.
- The bank lodgement column should be reconciled to the bank statements.

Lodging Receipts

- All amounts received should be lodged intact and on a regular basis.
- All lodgements should be referenced to the Receipts Book.
- All lodgement books (issued by the bank) should be kept in a secure location.

Back-up records for receipts

- The organisation should keep a separate file with supporting documentation in respect of all amounts received.
- The manager/board member should independently review the reconciliation of the income recorded as received and the income actually received on a regular basis and document each of these checks.

3.4 Cash Handling

Physical controls around the handling of income are essential as one seemingly insignificant weakness can result in a substantial loss to an organisation.

Physical controls

- Where a cash register is in place, staff should be adequately trained on the use of the cash register.
- All monies should be immediately placed in the cash register.
- The till receipt roll should be reconciled to the cash in the till at the end of each day.
- Where there is no cash register in place, a system of issuing physical receipts to customers should be in place, with a carbon-copy of the receipt kept by the organisation.
- Cash should only be given to a specified person and then put in a secure locked location, with access limited to authorised personnel.
- Any material variances between records and cash should be fully investigated.

- Lodgements of cash to the bank account should take place within a reasonable timeframe.
- There should be appropriate segregation of duties so that the lodgements are reviewed and approved by a separate staff member from the person lodging the cash.
- The cash receipts should be easily traceable from the cash receipts records, to the lodgements and finally to the bank statement.

Petty cash

- Petty Cash should be operated on an *Imprest* system.
- Details of payments made to and from Petty Cash should be recorded in a Petty Cash Book.
- The actual Petty Cash on hand should be kept in a secure place (i.e. locked) and reconciled to the balance shown in the Petty Cash Book on a regular basis.
- Petty Cash should only be used to pay minor outgoings of small value.
- All payments from Petty Cash should be supported by a till receipt or invoice for the amount spent.

3.5 Fraud Prevention

FRAUD means using an organisation's money/goods/service for other than what they were intended for.

Examples include :
- Altering or forging cheques
- Using company funds to make personal payments
- Claiming for travel and subsistence costs not incurred
- Altering or forging invoices
- Theft of cash or equipment
- Use of equipment for personal gain

If Fraud goes undetected, it can have a detrimental effect on the overall sustainability and long term success of an organisation.

Tips for Recognising, Minimising and Responding to Fraud within your Organisation

Recognise Fraud

Be suspicious of;
Inaccurate/out of date accounting records
Missing bank statements, invoices, receipts
Change in staff behaviour

Minimise Fraud

Build random checks into financial procedures
Make it easy for staff to share concerns
Ensure staff understand your financial controls

Respond to Fraud

Have clearly defined policies
Specify how staff can voice concerns
Specify when the Gardai should be informed
Identify a person who will be responsible for any investigations

3.6 Tax Clearance Certificate (TCC)

- A Tax Clearance Certificate (TCC) is a written confirmation from Revenue that a person's/organisation's tax affairs are in order at the date of issue of the certificate and should be applied for via www.revenue.ie.
- When obtaining payments of State/Public Authority grants by Government Departments and public authorities, of a value of €10,000 or more within any twelve-month period, the applicant is required to produce a valid TCC from the supplier or no payment can be made.
- An organisation must hold a TCC from all suppliers where payments of more than €10,000 are transferred to them in a 12 month period.

3.7 Sub-Contractors Tax Clearance

- A C2 is written confirmation from the Revenue Commissioners that the sub-contractor's tax affairs are in order at the date of issue of the certificate.
- For public sector contracts or grants of a value of €10,000 (inclusive of VAT) or more within any twelve month period, the sub-contractor will be required to produce either a valid C2 Certificate or 35% of the payments due to the sub-contractor to be deducted and paid directly to the Revenue Commissioners.

3.8 Service Level Agreement (SLA)

- An SLA is a negotiated agreement designed to create a common understanding about services, priorities and responsibilities and should be in place if a 3rd party is contracted to undertake a service for your organisation.
- SLAs can include segments to address a definition of services, performance measurement, reporting project expenditure, problem management, duties of service provider and termination of agreement.
- The availability of a Service Level Agreement documents the parameters of the service for the benefit of both the provider and the recipient.
- SLAs reduce the occurrences of disputes between parties as terms and conditions for the implementation of the contracted service are clearly defined.

4. Financial Reporting

Why Financial Reporting is important:

- It provides information to help you make decisions
- It safeguards the assets of the organisation
- It forms part of compliance with the Revenue Commissioners, legislative and donor requirements

An organisation's annual financial statements provide information at a given point in time about:

- The organisation
- Its financial position
- Its performance
- Its future prospects
- Its future plans
- Any risks/challenges it faces

4.1 What are Audited Financial Statements?

Organisations are required to keep proper books of account which give a true and fair view of the organisation's financial affairs. Certain organisations have a statutory obligation to prepare annual financial statements, have their financial statements audited and lay them before the organisation's members at the AGM. To understand if your organisation falls into this category, please consult with the CRO website (www.cro.ie) and/or your accountant.

The purpose of understanding annual financial statements is to:

- Obtain information about the organisation
- Assist when making decisions in relation to the organisation
- Assess risk
- Assess solvency
- Review performance

The name on the Annual Financial Statements should agree to the name on the organisation's Memorandum and Articles of Association and the Tax Clearance Certificate (TCC).

The following ***minimum*** documentation should be included in the (audited) Annual Financial Statements:

- Company Information
- Directors' Report
- Statement of Directors' Responsibilities
- Auditor's Report
- Income and Expenditure account
- Balance Sheet
- Cashflow Statement
- Notes to the Financial Statements

Every Company, except those with certain exemptions, must have their annual accounts audited.

4.2 Interpreting Financial Statements

Financial Statements show where an organisation's money came from, where it went, and where it is now.

Reviewing an organisation's Financial Statements:

- Confirms whether the organisation has the capacity to manage the funding and deliver its planned activities
- Assists the organisation in identifying any potential risk to its funding
- Assesses whether the level of the organisation's reserves are acceptable

Advice on reviewing and understanding Financial Statements should be sought from your accountant/auditor who can highlight areas which may require specific attention.

Two principle elements of an organisation's Financial Statements are the Income Statement and Balance Sheet. The Income Statement shows how much money an organisation received and spent over a period of time and the Balance Sheet shows what an organisation owns and what it owes at a fixed point in time.

Items to look for while reviewing Financial Statements :

- Liquidity – being the ability of an asset to be converted into cash quickly
- Solvency – being the ability of an organisation to have enough assets to cover its liabilities
- Levels of Cash in bank, including the impact for the cashflow of the organisation, whether the balance is positive or negative and the implications of that

- Level of Unrestricted Reserves – reserves that are freely available to spend on any of an organisation's activities, which have not yet been spent, committed or designated
- Debt levels – important to understand what proportion of debt an organisation has, relative to its assets
- Are an organisation's activities self-funding?
- To what degree is an organisation reliant on fundraising?
- What is the level of administrative expenses (fixed and variable)?
- What financial commitments does an organisation have and can they be funded?
- Related party transactions – are members or officers benefiting or acting inappropriately in dealings with the organisation?

Note : previous year figures/ information should be taken into account to understand trends, movement etc.

4.3 Department of Finance Circular 17/2010

The Department of Finance issued Circular 17/2010 - *Requirements for Grants and Grants-in-Aid*, which detail a number of new requirements on how grantees are to report in 2011 Annual Financial Statements onwards, on grants/ grants-in-aid received.

You **must** ensure your accountant or auditor is familiar with these requirements also.

Grantees must report the following in their Annual Financial Statements:

1. The name of the grant making government department
2. The actual name of the grant programme
3. The amount and term (period) of the total grant and the amount of grant accounted for in the current financial statements if it is less than the entire amount
4. Where relevant, the amount of capital provided and the reporting policies being used in relation to current and future instalments
5. Whether and how the use of the grant is restricted (i.e. is it for a particular project)

Full details, including a useful checklist, can be found here: http://www.finance.gov.ie/documents/circulars/2010/circ172010.pdf

4.4 Types of Auditors

- **External Auditors** are audit professionals who performs a review of the financial statements of an organisation. The primary role of external auditors is to present an unbiased and independent evaluation of the organisation and express an opinion on whether an entity's financial statements are free of material misstatements.

- **Internal Auditors** perform ongoing appraisals of the financial health of an organisation's operations and are carried out by its own employees or by an appointed consultant. During an internal audit, internal auditors will evaluate and monitor an organisation's risk management, reporting, and control practices and make suggestions for improvement.

- **External Grant Auditors** carry out reviews of agreed activities and performance, as well as on-the-spot checks to ensure that grant funding is spent in accordance with the rules of the funding and in line with an agreed budget

4.5 Reconciliation of Funder Income and Expenditure to Audited Financial Statements

The total expenditure per your annual financial statements will normally differ from the expenditure reported to your grant funder for the same year. This is because the latter is a record of amount actually received and paid in the period (i.e. the expenditure returns are prepared on a receipts and payments basis), while the financial statements are prepared on an accruals basis and will take into account amounts that are receivable or payable at the year end, but not yet received/paid. There may also be other trading income included along with the grant income in the overall turnover total which makes it difficult to differentiate the grant funding received.

The funded organisation's auditor should prepare an independently certified reconciliation between the grant related expenditure returns and the annual financial statements. Separate reconciliations should be prepared for each strand of funding received and any differences should be accompanied by narrative explanations, e.g. accruals, depreciation, the capitalisation of fixed assets, etc.

The requirement of your auditor/accountant to prepare the reconciliation should be included within the Letter of Engagement with your auditor/accountant, with the cost incorporated into their overall fee. The Letter of Engagement should contain the three clauses :

- The preparation of an independent reconciliation between the Pobal expenditure returns and the annual audited accounts.
- Requirement for statutory auditors to familiarise themselves with public accountability requirements attached to the funding.
- An all-inclusive fee, agreed in advance.

4.6 Where do you submit Audited Financial Statements to and when?

The audited financial statements are submitted to the Companies Registration Office (CRO). Each Company has an Annual Return Date allocated to it (confirmed by reviewing the Companies Registration Office website www.cro.ie). Audited financial statements are submitted alongside the Annual Returns. The Annual Return Date of a company is the latest date to which an annual return must be made up. The annual return must be filed with the CRO within 28 days of the date to which it is made up.

4.7 Who is responsible for the Audited Financial Statements?

It is a statutory duty of the directors of a company to maintain proper books of accounts and to prepare the annual financial statements.

4.8 What is an External Audit?

An external audit is an examination of the financial statements of an organisation and is conducted by an auditor or firm of auditors.

Its purpose is to give the organisation's Board/Management Committee/owners an independent, professional and informed opinion stating to what extent the financial statements:

- Have been prepared according to the Companies Acts (or equivalent) as well as any other relevant legislation and accounting standards and;
- Give a true and fair view of the state of the organisation's affairs, its surplus and deficit for the year and its assets and liabilities for that year

As a general rule, a set of financial statements will be considered to give a true and fair view where they have been prepared in accordance with the Companies Acts (or equivalent) and the generally accepted accounting standards.

4.9 What does an External Audit involve?

In carrying out an audit, an auditor will usually:

- Issue the organisation with a 'letter of engagement', which sets out the directors' and auditors' respective responsibilities and details the scope of the audit
- Identify the areas of the financial statements that are most likely to be of most concern
- Check the accuracy of a sample of transactions, account balances and disclosures
- Decide whether the organisation's accounting policies and procedures are reasonable and have been correctly implemented
- Test the effectiveness of the organisation's internal controls
- Assess the validity of the directors' estimates when they prepared the financial statements
- Write to the directors setting out any problems discovered during the audit and advise on how the organisation should deal with them
- Write and issue the auditor's report to the Board/Management Committee/owners of the organisation

5. Understanding Staff Costs

This section should be read in conjunction with the Human Resources volume of Managing Better

There is no underestimating the role that both the staff and management team play in the success and sustainability, or otherwise, of an organisation. Staff costs are a significant area of expenditure in most organisations.

This section will look at:

- The elements that make up staff costs
- Travel and subsistence
- Staff attendance records
- The distinction between employed and self employed
- Calculating the cost of redundancy
- Employee use of own car for work purposes

5.1 Processing Salaries

Every organisation that has employees is obliged to register with the Revenue Commissioners as an employer and to operate PAYE/PRSI in respect of all employees.

Employers must ensure that payroll staff members have the necessary training to enable them to perform their payroll duties.

Basic formula for calculating Net Pay:

Employees gross pay
(pay rate X number of hours worked)

–	(1) Statutory tax / income levies/ Universal Social Charge
–	(2) Employee PRSI
–	(3) Voluntary payroll deductions
=	Net pay

(1) Statutory Payroll Tax / Income Levies

- PAYE (Pay As You Earn) or Income tax
- Income levy

The PAYE system of tax deduction should be applied to all income from employments, other than a few isolated exceptions e.g. the re-imbursement of Travel and Subsistence expenses to employees.

(2) PRSI – Pay Related Social Insurance

- The rate of PRSI deducted depends on the employees personal circumstances

All of the above payroll deductions are paid to the Collector General (Revenue) in the form of a P30 return

(3) Voluntary Payroll Deductions

Written permission from the employee must be received before a voluntary deduction (i.e. health insurance premiums, pensions, union subscriptions, life assurance premiums etc.) should be made.

Depending on the type of voluntary contribution, this may be deducted prior to tax been calculated (e.g. pension contribution) or maybe deducted after tax has been calculated (e.g. health insurance).

New Employees

If no tax instructions have been issued for a new employee (i.e. P45 or current tax certificate), then new employees must be put on emergency tax until a P45 or up to date tax certificate is received. Your local tax office should be contacted for guidance, if there is any doubt as to the correct procedure.

Employers Costs

- Employers PRSI: this is the employers contribution to PRSI and is not deducted from employee's gross pay
- Employer pension contribution (if applicable)
- Payroll fees (if applicable) e.g. maintenance and support fee to payroll software supplier or annual subscription fee to payroll organisation

Employer Responsibilities

- Provide a detailed payslip in respect of each salary payment
- Employee PAYE and PRSI, levies and employer PRSI must be submitted to Revenue in the form of a P30 return
- Employee and employer pension and/or PRSA deductions must be forwarded to the pension provider by the 21st of the following month
- All salary figures per the financial statements must reconcile back to payroll records
- Ensure a P45 is provided for each employee on the termination of their employment contract. Revenue must also be sent part of the form
- P60 and Income Levy Certificate must be submitted to every current employee by the 15th February of the following year
- P35 return must be submitted annually to Revenue by the 15th February of the following year

5.2 Travel and Subsistence

Organisations must ensure that the agreed rate for reimbursing travel and subsistence claims is incorporated in an updated internal financial procedures document. It is prudent that an organisation's travel and subsistence rates do not exceed the current civil service rates (see Department of Finance website for current rates at www.finance.gov.ie).

Organisations must introduce a formal claim form which provides all the requisite information i.e. purpose of each journey undertaken, start and finish time, date, destination, distance travelled. Where civil service rates are being used, then the engine size of the claimant's vehicle and the cumulative miles travelled to date for each calendar year must also be recorded. Travel and subsistence claim forms should be submitted on a monthly basis, signed by the claimant and should be authorised by the manager, except for the manager's own claim which should be authorised by the Chairperson.

5.3 Staff Attendance Records

Organisations must ensure that certified attendance records are maintained in respect of all staff members. These records must record the following:

- The start and finish time each day, together with details of all breaks taken
- All attendance records should be signed and dated by the manager on a regular basis as evidence of their review and approval
- These records should be summarised on a regular basis, which clearly shows cumulative hours worked, leave taken etc

5.4 Employed or Self-Employed

In most cases it will be clear whether an individual is employed or self-employed. However, it may not always be so obvious, which in turn can lead to misconceptions in relation to the employment status of individuals.

The Revenue's "Code of Practice for Determining Employment or Self-

Employment Status of Individuals" is located here: http://www.revenue.ie/en/tax/rct/leaflets/index.html
If further assistance is required you should contact your local Revenue Office or Scope Section of the Department of Social Protection.

Points to note:

- Employees should not perform any services for your organisation, for which they then present an invoice to you for payment
- Where external consultants are used, they should prepare an invoice, detailing the dates, times and rates charged. If an individual provides the service, the invoice should show their PPS number

5.5 Statutory Redundancy Information and Calculator

Where an individual loses their job due to circumstances such as the closure of the organisation or a reduction in the number of staff, this is known as redundancy.

Calculation Rules

The statutory redundancy payment is a lump-sum payment based on the pay of the employee.

Pay refers to your current normal weekly pay including average regular overtime and benefits-in-kind, but before tax and PRSI deductions, that is your gross pay. The amount of statutory redundancy is subject to a maximum earnings limit. The statutory redundancy payment is tax-free.

The Redundancy Calculator is available on the website of the Department of Social Protection at www.welfare.ie

Employer's Tax Rebate

An employer may obtain a rebate of 15% (rate from 1st January 2012) of the statutory redundancy payment through the Department of Enterprise, Trade and Employment. The rebate can be obtained by fully completing and returning the RP50 Form, including the employee's signature.

The completed form should cover the notice period for redundancy and confirmation of receipt of the statutory redundancy. The application for employer's tax rebate should be submitted within 6 months of the employee receiving their lump sum.
More information is available at www.redundancy.ie.

6 Tendering and Public Procurement Procedures

The objective of Procurement is to ensure transparency and fairness is applied in tendering procedures at all times. All organisations in receipt of public funding are obliged to operate within Government and EU Procurement Guidelines when it comes to the award of its supplies, works and services. In general, once a need has been identified and approved, competitive tendering (see below) should be used to procure the goods/services as it will avoid abuses and also ensure value of money.

6.1 Competitive Tendering

Department of Finance limits (excluding VAT) for conducting Competitive Tendering Procurement:

- Less than €5k – Obtain at least one verbal quotation from competitive suppliers and select the lowest/most suitable price
- Between €5k and €25k (€10k for IT related contracts) – Send brief specification to number of competitive suppliers (at least three) seeking written quotes. Evaluate offers objectively against specified requirements and select the most suitable offer
- Between €25k (€10k for IT related contracts) and EU Thresholds – Following comprehensive tendering process via www.etenders.ie

The two types most widely used Competitive Tendering procedures are Open and Restricted:

Open Tender Procedures –This allows for all interested parties to submit a tender. Only tenders of those deemed to meet minimum levels of technical and financial capacity should be evaluated against the award criteria.

Restricted Tender Procedures - This is a two-stage process, where only those parties who meet the organisation's requirements in regard to financial, technical and legal capacity are invited to tender. The successful tenderer is chosen by assessing the tenders received against the predetermined award criteria.

The purpose of *Selection Criteria* is to ensure that only tenders from suitably competent firms are evaluated and receive business from the organisation.

The purpose of *Award Criteria* is to select the most suitable tenderer to deliver the contract by using open, transparent and objective criteria. Contracts may be awarded in one of the following two ways :

1) Using the criterion of lowest price
2) Looking for best-value-for-money (i.e. using the criterion of the Most Economically Advantageous Tender {MEAT}).

6.2 Framework Agreements

Framework Agreements are agreements with suppliers, the purpose of which is to establish the terms governing contracts to be awarded during a given period. A Framework Agreement, as opposed to a contract for supply of services or goods, sets out the terms and conditions for future orders but places no obligations for the organisation to order anything. The parties will only enter into a binding agreement to purchase services when an order is made.

6.3 Conflict of interest

A conflict of interest can be described as any form of personal interest, which may impinge, or might reasonably be deemed by others to impinge, on an individual's impartiality in decision-making. Any individual participating in the tendering process must be aware of potential conflicts of interest and should take appropriate action to avoid them. If conflicts of interest arise, these should be immediately declared.

6.4 Sole Suppliers

Where it is necessary to deal with a sole supplier, reasons for selecting that sole supplier should be clearly recorded and arrangements which provide for best value for money should be negotiated. The justification for a sole supplier must be demonstrated, e.g. due to copyright, warranty protection, etc.

6.5 Record keeping

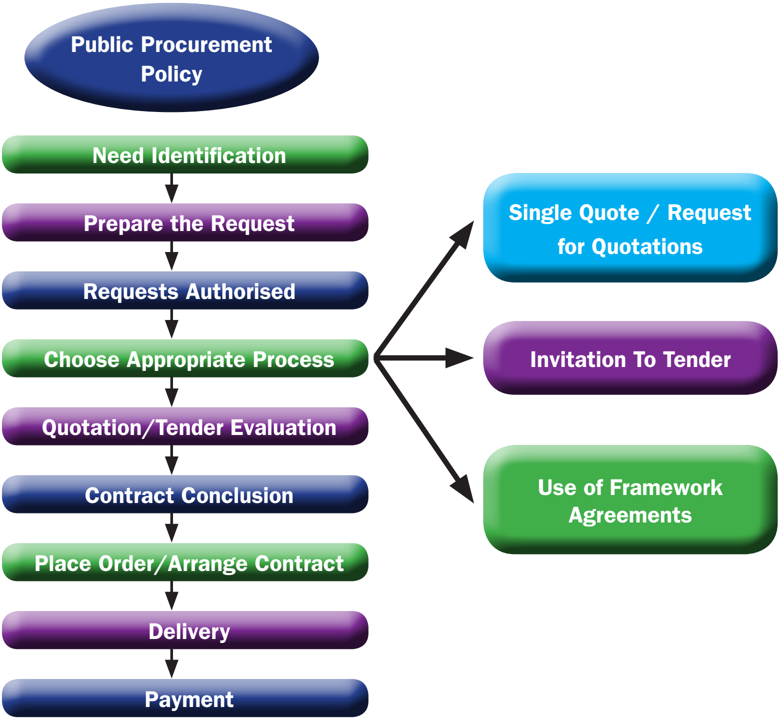
Written records of the entire tendering and contracting procedure must be kept confidential and retained by the organisation.

Each Contract File must include at least the following :

- Tender announcements
- Tenders submitted
- Tender Opening Report
- Evaluation Report
- Success and regret correspondence
- Any other relevant information
- Two originals of the proposed contract.

6.6 Procurement Workflow

describes the various stages of procurement policy



7 Useful Links

7.1 Understanding Staff Costs

- Irish Business and Employers' Confederation (IBEC) – www.ibec.ie
- Irish Congress of Trade Unions (ICTU) – www.ictu.ie
- Department Jobs, Enterprise and Innovation – www.djei.ie
- Revenue Commissioners – www.revenue.ie
- Department of Social Protection – www.welfare.ie
- Citizens Information – www.citizensinformation.ie
- Community Sector Employers' Forum – www.erb.ie
- Chartered Accountants Ireland - www.charteredaccountants.ie
- Association of Chartered Certified Accountants - www.acca.ie

7.2 Tendering and Public Procurement Procedures

- E Tendering - www.etenders.gov.ie
- National Procurement Service – www.procurement.ie
- ICT Procurement Service – www.ictprocurement.gov.ie

A *Glossary of Terms* and further *Beneficiary Supporting Documentation* is available on www.pobal.ie