

HONORARY TREASURER'S HANDBOOK

Kate Sayer Judith Miller Arlene Clapham

Edited by Denise Fellows

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*The
Honorary
Treasurers
Forum*

The Honorary Treasurer's Handbook

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Edited by Denise Fellows

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FOREWORD

BRUCE GORDON

The Forum was created to help Honorary Treasurers in the important work they carry out by providing a place where they can come together as a community, share expertise and promote best practice.

Nowadays the place that people come together or seek advice is often online and so the Forum is publishing its latest guidance to be easily accessible from our website. We hope that this approach will help more Treasurers have increased confidence to fulfil their important role.

There are a number of books and guides which explain charity accounting. That is of course important, but the Treasurer has to provide advice and support in many other areas relating to finance and is the go-between the finance staff, where present, and the trustee board. The Treasurer therefore needs not only knowledge of charity accounting but also the skills and behaviours to work well with many others within the charity. The role is diverse depending on the size and objectives of the charity. The Treasurer may be called on to chair finance committees. In smaller charities the Treasurer may also be the bookkeeper and needs to be able to navigate the conflict between the operational and governance roles. We hope this handbook will help navigate through the 'softer' aspects of the role.

It has been more than ten years since we last produced a handbook for Treasurers. By delivering the content online we need not wait another ten years but can update and add sections regularly. We welcome thoughts and ideas for future content from all.

We thank Kate Sayer, Judith Miller and Arlene Clapham for sharing their invaluable expertise in this handbook.

We are particularly grateful to the Worshipful Company of Management Consultants Charitable Fund who provided funding for the development and production of the handbook. The findings from the recent research into trustee awareness which they seed-funded will influence the development of the Forum over the coming years.

Bruce Gordon
Chair of the Honorary Treasurers Forum

FOREWORD

DAVID PEREGRINE-JONES

The Worshipful Company of Management Consultants is a vibrant and modern livery company and at the heart of the livery movement has always been Giving and Gaining. One of the most important ways in which our members gain is from their giving to the non-profit sector is through pro bono consultancy or mentoring support. We have an enthusiastic community of active consultants who freely offer their time to help charities and other not-for-profit enterprises grapple with the day-to-day issues of running their organisations. We focus our pro bono support where it can have the most impact on improving social outcomes, particularly supporting the activities of charitable organisations that are either unable to pay normal consulting fees or have exceptional cases for support. Overall, we provide the equivalent of £1m of support each year through our pro bono programme.

Our pro bono work is complemented by our Charitable Fund and we have provided the seed funding for the recently released research into trustee awareness published in the report 'Taken on trust: the awareness and effectiveness of charity trustees in England and Wales'. Amongst the findings and recommendations was the need for the Honorary Treasurers Forum to provide advice and support to Treasurers. This handbook with guidance for Treasurers is timely in its arrival and we are delighted to provide support in its development and production.

David Peregrine-Jones
Chair of the Worshipful Company of Management Consultants
Charitable Fund



ABOUT THE AUTHORS & EDITOR

Authors: Sayer Vincent

Sayer Vincent is a firm of chartered accountants working solely with charities and social enterprises. Through tailored audit and advice services, Sayer Vincent provides trustees and managers with the assurance that their charity is managing its resources effectively. As well as being commercial accountants, Sayer Vincent people have an in-depth knowledge of the governance and management of charities and social enterprises. They can advise on a range of business activities to achieve the best financial outcomes, keeping in mind the context of your organisation's objectives. Working with Sayer Vincent, you will feel that you have extra people on your team.

A number of people contributed to the creation of this handbook:

Kate Sayer leads the consultancy services for Sayer Vincent, working with trustees and finance teams to improve financial governance and the way the finance function works within the organisation. Kate is a trustee and treasurer of the Association of Chairs as well as a non-executive director of Charity Bank.

Judith Miller is an audit partner with Sayer Vincent, with a portfolio of audit clients. Judith also leads reviews of governance, organisational and team structures. She develops and facilitates board awaydays and acts as the external facilitator for board appraisals. She also undertakes investigations, particularly for grant-makers where there are concerns around financial management and governance. Judith is a trustee and treasurer of the Small Charities Coalition.

Arlene Clapham is a Risk and Assurance Manager at Sayer Vincent with many years' experience working in charities including British Red Cross and HelpAge International. As well as working on risk and assurance assignments, Arlene also has experience in fraud and whistleblowing investigations. Arlene's approach is friendly, supportive and professional, looking for practical solutions that will realise efficiencies, and ultimately increase the funds for beneficiaries. Outside work, Arlene is a trustee at Off The Record, a charity providing counselling services to young people.

Editor: Denise Fellows

Denise Fellows is part-time chief executive of The Honorary Treasurers Forum. In 2005, she helped found the Centre for Charity Effectiveness at Cass Business School, heading up the Consultancy and Talent Development practice for over ten years and remains a Senior Visiting Fellow at Cass. She has authored and edited several books including 'Bridging the Gap: moving onto nonprofit boards'. Amongst many voluntary roles, Denise is a founder liveryman of the Worshipful Company of Management Consultants and Treasurer of their charitable fund and is also a Tertiary Franciscan.

INTRODUCTION

Charities depend on volunteers as trustees to provide governance – providing oversight in larger charities and often taking a much more hands-on role in smaller charities. The treasurer in a charity is usually one of a number of trustees. The trustees are collectively responsible for the governance and management of the charity – this includes the financial management. However, if the charity appoints a treasurer, he or she will be expected to lead on all aspects of the charity’s finances. An important aspect of the treasurer’s role is to act as an interpreter in financial matters to trustees who may have less understanding of finance.

Does a charity need a treasurer?

Charity Commission Guidance (Essential Trustee CC3) states

“Some trustees have special roles, such as the chair and the treasurer. They are known as officers. You must comply with any specific provisions for officers in your governing document. Trustees can also nominate a trustee to take the lead on a particular matter.

Charity officers don’t automatically have any extra powers or legal duties than their co-trustees, but may carry out specific roles or have specific responsibilities delegated to them. However, all trustees remain jointly responsible for the charity. For example, all trustees share responsibility for finances (not just the treasurer)”

So, you don’t need to appoint a treasurer but many charities find it helpful to have someone at Board meetings, who may or may not be a trustee, but does take the lead in financial matters.

This person may have other titles, such as chair of the finance committee, for simplicity we will refer to them as ‘treasurer’.

The role is varied depending on the size and activities of the charity. In a small charity, the treasurer may also act as a volunteer in maintaining the basic accounting records. In a larger charity, the treasurer may lead the decision-making for significant investments. The treasurer’s role is an important one which is vital to the well-being of any charity.

This handbook does not attempt to provide a detailed introduction to charity finances but aims to help treasurers feel confident in their role. It covers a number of aspects:

- **The treasurer’s role.** There are many aspects to the treasurer’s role and you will not necessarily be called upon to act in all capacities, but this handbook sets out guidance on different aspects of the role.
- **Contributing as a treasurer.** Charities are different to commercial entities although there are, of course, similarities. This section explains how the treasurer can use their skill and experience in a charity context.

- **The right relationships.** The treasurer needs to work well with other honorary officers, trustees, volunteers and staff. This section provides guidance on the relationships and what is expected of treasurers.
- **The right structures.** The good governance of charities relies on appropriate structures and in many cases the treasurer will be responsible for chairing meetings and committees.
- **Areas of special interest.** This section is a guide to the particular areas where treasurers should pay special attention. It is relevant for experienced treasurers as well as those new to the role.
- **Finding the right person.** Many charities find it difficult to recruit trustees, so guidance is set out in this handbook on recruitment and induction of treasurers, with resources in the final section to help you to advertise your role.
- **Resources and recommended reading.** This section contains details of useful publications and websites where you can obtain further guidance and information. In particular, we would direct treasurers to the Charity Commission publications: *CC3 – The Essential Trustee* and *CC25 – Charity Finances*.

THE TREASURER'S ROLE

The role of treasurer can vary between charities depending on their size and activities and it is recommended that boards clarify what they expect from their treasurer at the outset.

For the majority of charities, a treasurer is also a trustee and needs to contribute to all discussions at board meetings. Some charities appoint a treasurer, but the role is not a trustee role, but it is a role akin to 'volunteer accountant'. For the purposes of this handbook, we will refer to treasurers as those who are trustees and have a governance role.

For smaller charities, a treasurer may provide a significant amount of hands-on help with all financial tasks. In this respect, the treasurer may then be acting as a volunteer as he or she is undertaking tasks for which a member of staff would be responsible in a larger charity. It is helpful to see this part of the role as volunteering in an operational capacity, whereas oversight and the other functions of a treasurer are a governance role common to all charities. A good treasurer does more than just speak up when there are some accounting issues to deal with – he or she will have a good grasp of all the activities of the charity. Understanding the links between activities, people and finances is more important than expertise in technical accounting matters. This section looks at various practical aspects of carrying out the role.

Overview of the treasurer's role

The role of the treasurer is to monitor the financial administration of the charity and report to the board of trustees at regular intervals on its state of financial health, in line with best practice, and in compliance with the governing document and legal requirements.

Typically, the main responsibilities and duties of the treasurer include:

- overseeing and presenting budgets, internal management accounts and annual financial statements to the board of trustees
- leading in the board's duty to ensure that proper accounting records are kept, financial resources are properly controlled, invested and economically spent, in line with good governance, legal and regulatory requirements
- leading in the development and implementation of financial reserves, cost management and investment policies
- liaising, where applicable, with the appropriate member of staff responsible for the financial activities of the organisation
- chairing any finance committee in line with standing orders and terms of reference, and reporting back to the board of trustees
- monitoring and advising on the financial viability of the charity
- overseeing the implementation of and monitoring specific financial controls and adherence to systems
- advising on the financial implications of the charity's strategic plan
- overseeing the charity's financial risk management process

- acting as a counter signatory on charity cheques and important applications to funders
- liaising with the external auditors or independent examiner on specific issues such as the auditor's or examiner's management letter and the related board representations.

The extent of these duties and the treasurer's involvement will vary with the size, complexity and activities of individual charities.

The treasurer's role in contributing to effective meetings

While the board has collective responsibility for the charity's finances, the treasurer may need to help others by interpreting various reports and accounts. The way in which you approach this depends on the skill and experience of fellow board members. Some suggestions:

- Some board members may find it useful to be able to go through financial reports before the meeting itself
- Some treasurers prepare a 'plain English' version of the key financial findings and provide this as a cover sheet to the financial reports. Sometimes, this can be prepared by the head of finance
- You can introduce the financial report and verbally provide an overview of the key facts, allowing board members to then ask questions.

Most treasurers are also trustees, so you are contributing to the whole meeting and should avoid the temptation to only speak up on financial matters. Your participation in all decisions is needed.

The treasurer's role in creating good meeting papers

The quality and timing of board papers is a key factor in the effectiveness of meetings. It should be clear from the papers presented whether they are for information only or whether a decision is required.

Finance is likely to be on every board meeting agenda. It is the role of the treasurer to:

- Ensure that finance papers are prepared in good time and that you have reviewed them before they are circulated. While this can be delegated to the chief financial officer, you do not want any surprises at the meeting
- The treasurer should take a lead in ensuring the quality of papers where a decision is required. Even though these may not be papers produced by the finance department, you can help the charity to establish good templates for business case documents and ensure that robust methodologies are adopted
- Review all board papers and consider any financial implications
- Identify where the board needs external expertise and arrange for appropriate presentations from advisors.

The treasurer's role in providing timely updates to the chair and the board of trustees

Even if your charity has a well-established programme of meetings, there may still be items that arise outside the normal plan. You should flag new items to the Chair in good time and not wait to raise this at the meeting under any other business.

For example, there may be items on the risk register where there is a change in status which needs to be brought to the attention of other trustees. In most charities, it is conventional to channel all communications through the Chair and/or the chief executive.

If the charity has a finance director or head of finance, then the treasurer needs to agree the correct communication protocol. Usually, the treasurer should be informed of significant matters at the same time as the chief executive and the Chair. Rather than leaving such things to chance, it would be as well to agree the protocol in advance.

The treasurer's role in overseeing the translation of financial information for decision making

An important aspect of the role is to act as an interpreter in financial matters to trustees who may not feel so comfortable with finance reports. The treasurer should support the board to develop their understanding of financial information so they can all play a full role in decision-making. You can also influence the format and content of financial reports prepared by managers to further engage the trustee board.

The treasurer can effectively act as a 'bridge' between the non-financial aspects of the operations and the financial side. For all charities and social enterprises, the challenge is to deliver sustainable finances *and* achieve a social return. It is no good if your charity is making a financial profit but not delivering its social aims. On the other hand, it is not sustainable for a charity to be achieving great work for its beneficiaries but running at a loss. The successful charity treasurer understands both aspects and, with the charity's Chair, brings both sides of the equation together.

The treasurer's role in overseeing the annual financial budget

The annual budget is an estimate of future income and expenditure, and also clarifies important decisions about where the charity will allocate its resources. For larger charities, the senior management team will be expected to come to the board with a budget that expresses in financial terms how the charity expects to implement the strategy. In smaller charities, the treasurer will need to work closely with the operational team and, in some cases, will prepare the budget.

The treasurer may need to support the finance director in making cuts to the budget if the spending plans exceed the income. Together, they will need to review the fundraising forecasts to assess whether these are sufficiently reliable to form a basis for the budget. One of the problems in charities is that the sections of the charity responsible for spending funds will have very little to do with the side of the charity that generates the income. It is not uncommon for a budget to be set with income that is 'hoped for' and expenditure plans that are certain. You may need to establish appropriate rules of engagement for budget-setting that steer the charity away from such dangerous paths. For example, suggesting that expenditure plans are only activated once the funding is secure.

The budget should be prepared before the year end so that plans are approved before the beginning of the year. Budgets are the financial version of the plans and

so they should be approved together. The financial budget will not make sense without the plans. You play an important role in ensuring that the assumptions underlying the budget are valid and sensible.

Each organisation will have its own ideas about how it wishes to present its budget information, but you should play a role in steering the format of budgets and the level of detail presented. You need to bear in mind that a large spreadsheet format is likely to stifle debate by the full board. A summary with words and pictures may be more helpful to generate a full discussion about the planned direction and financial implications.

The treasurer's role in authorising expenditure and financial commitments

Expenditure and financial commitments should be subject to appropriate levels of scrutiny and formally approved in accordance with authorisation limits, set by the board. Day-to-day transaction approvals under the limits set is normally delegated to managers at appropriate levels. Unusual, large or one-off financial commitments need separate authorisation. The treasurer will not usually be a sole signatory on such transactions, which will need to go to a committee and probably the full board. The treasurer's role will be to ensure that a proper business case is prepared to support good decision-making. You can also bring a dispassionate view to help decision-making when senior managers may have become very involved. You can help to ensure that a proper process is followed while assisting the managers to make their case.

The role is likely to include the following:

- Responsibility for ensuring financial commitments requiring full board approval have ample time for debate in order to come to an informed decision
- Ensuring any decisions requiring financial commitments are in line with strategic objectives
- Ensuring value for money has been a factor in approving financial commitments

The treasurer's role in establishing good internal controls

A charity relies on internal controls operating effectively to protect the financial integrity of the charity. The treasurer's role is to provide oversight of the control environment.

The first step is to ensure financial procedures exist. Basic financial procedures will cover record-keeping, reconciliations, authority limits and approvals. The Charity Commission provides guidance on appropriate financial internal controls for charities (see Resources).

Secondly, the procedures need to be operated properly and so adequate training needs to be in place. This should extend beyond the finance team, as managers from all sections will need to approve invoices, monitor budgets and submit expenses. You should ensure that each person in the organisation understands their role in internal control and can perform it adequately.

Even if a good set of basic internal controls is in place, this will not be effective unless the culture of the organisation supports control. While much of this is common sense, the spirit of good financial controls needs to permeate the whole organisation. The treasurer has the authority and the ear of the Chair and must

ensure that a good example is set by trustees and senior managers. For example, the chief executive's expenses should be approved by the Chair, not his secretary. The treasurer should ask to see a full set of expense claims from trustees and senior managers from time to time. As well as reviewing these, the treasurer should ensure that it is known that he or she does perform a regular review. The purpose of a good control environment is to support good behaviour, which for most people comes naturally. Occasionally, someone steps over a line and the charity needs to show that it will not tolerate such behaviour.

INTERNAL CONTROLS IN SMALLER CHARITIES

In smaller charities, the treasurer may be required to play a bigger part in the internal controls, such as reviewing reconciliations or authorising expenditure.

In these cases, the treasurer should periodically re-perform some of the expected controls, such as the bank reconciliation, to ensure information provided is accurate and expected controls are in place.

Periodically, the treasurer should select a small sample of invoices to check that the financial procedures are being followed and that the internal controls are operating as intended.

In charities with no staff where the treasurer is undertaking these processes, it is helpful to have another trustee perform the checks.

The treasurer's role in developing a value for money culture

Value for money generally relies on the three E's of efficiency, economy and effectiveness. The treasurer can help the charity to address all three.

Efficiency

Treasurers bring an understanding of processes, so will be able to support operational teams aiming to improve efficiency. Commonly, the largest item of expenditure for a charity is staff salaries, so efforts to review efficiency need to focus on how staff time is used, since that is what the charity has bought. You could act as the sponsor for a project to map processes and understand how efficiencies can be improved. Staff often know where they would like to improve the way they work, but they may need support at board level to make changes.

The charity may have ideas for using technology to improve efficiency but it can be difficult to measure whether the technology is making a difference. Treasurers often bring experience of similar changes from their professional careers and can help to guide staff on how they can evaluate improvements.

Economy

Many charities do not have a purchasing or procurement function, but a treasurer will be able to bring knowledge and skills about how to select suppliers, get the best prices and run tender processes. All charities should try to compare prices and consider whether different ways of working, different suppliers or consortium buying will help to reduce costs overall to the charity.

Effectiveness

Effectiveness can be harder to measure as it is about doing the right things, rather than simply doing things efficiently. Charities need to gather evidence of the impact of their work and assess whether the costs of achieving those outcomes represent good value for money. There are many different approaches to assessing effectiveness and you should support managers in selecting and implementing some form of measurement. It is unlikely that there will be a 'one size fits all' solution for this aspect. Treasurers can help the board and the management team by finding out more about the methods and approaches that exist and providing a critique of those they think might be most helpful.

The treasurer's role in establishing key performance indicators

Charities need financial and non-financial key performance indicators (KPIs). It can be difficult to establish meaningful KPIs for charities though – financial performance is not necessarily an indicator of success. Far too often charities get stuck on measuring *inputs* and management accounts will only tell you if you have performed in accordance with the budget. Therefore charities will need to come up with KPIs about their outputs and outcomes – how can you measure success at delivering services for your beneficiaries, for example?

The treasurer's role in monitoring the level of reserves

Reserves are the unspent unrestricted funds of the charity. Free reserves are available in cash. Just as any business, charities need to hold enough working capital to fund day-to-day activities. The purpose of reserves is to provide working capital and further funds as determined by the trustees in their reserves policy. However, opportunities and contingencies may arise which cause the charity to draw on reserves. The treasurer should set guidelines on the extent to which the charity can draw on reserves, setting a lower limit. The reserves policy usually states the desired range of reserves, so this may incorporate a statement on the lower level.

The treasurer's role in preparing and approving the annual report and accounts

All registered charities must prepare a trustees' annual report and accounts. Charities have to file accounts with Companies House if they are a registered company as well as with the Charity Commission in England and Wales, OSCR in Scotland and CCNI in Northern Ireland. Different legal forms in different jurisdictions will require filing according to the local rules, so will need to be checked. The Statement of Recommended Practice (SORP) for charities applies to all charitable bodies.

It often falls to the treasurer to make sure that all returns and reporting requirements are met. It is useful to create a register of all reporting requirements, showing the date of the last report, the next deadline and who is responsible for completing the report. Such a register can incorporate other reporting requirements such as data protection, which can be neglected if the responsibility for reporting is unclear.

An important aspect of a charity's end of year reporting is the narrative report. Typically, annual reports are longer for charities. They are an opportunity to explain what your charity does, why it does it and why it needs support.

REQUIREMENTS FOR SMALLER CHARITIES

There are differing requirements depending on the size of your charity.

Smaller charities can prepare a simpler form of annual report, and sometimes a simpler form of accounts. You need to check what is required in your jurisdiction for the size of your charity by looking up the accounting and reporting requirements on your regulator's website.

Charity annual reports

Requirements for charity annual reports include:

- The structure of the charity and how decisions are made e.g. if committees have delegated authority to make decisions
- How trustees are appointed and trained
- The achievements and performance of the charity
- A description of how the benefits provided by the charity are for the benefit of the public (or a section of the public) by reference to the users of the charity's services. Beneficiaries must be appropriate to the aims of the charity. If the benefit is to a section of the public, describe how the beneficiaries are defined or the restrictions on those who have the opportunity to benefit.
- Investment policy and a review of performance
- Grant-making policy if grants make up a significant proportion of the charity's activities
- Financial review
- Reserves policy
- How the charity assesses risk, keeps risk under review and actions taken to mitigate against the effects of risks that cannot be managed
- Description of any funds held as custodian

Up to date information about the preparation of annual reports and requirements of the SORP can be found on the Charity Commission's website: <https://www.gov.uk/guidance/prepare-a-charity-trustees-annual-report> or the equivalent regulator's website in your jurisdiction.

In addition, charity accounts have to show the income and expenditure analysed between the funds of the charity. Typically, the funds can be grouped as endowment, restricted income and unrestricted. Some unrestricted funds may be earmarked ('designated') for particular purposes at the discretion of the trustees. The purposes of all funds should be explained in notes to the accounts.

The annual report should contain a statement that major risks have been identified and that procedures are in place to manage risk. All trustees are accountable for this and the treasurer and Chair should ensure that the report is signed off by all trustees. However, the treasurer is likely to take a lead on all financial risks and controls. Assurance that key controls are operating effectively is provided by

management or independently of it, including external and internal audit reports. It is particularly important in smaller charities where the treasurer is also acting as the volunteer bookkeeper that there is independent scrutiny. This is a safety net for the treasurer as well as the charity.

You are also likely to be responsible for the financial review section of the trustees' annual report. Some treasurers lead on the whole report production process, although it is important to include other trustees and senior managers in the process. There is an aspect of project management necessary to the timely production of report and accounts, and you should ensure that someone is acting as project manager.

You may be responsible for signing the annual report and accounts, although this is often done by the Chair and can be done by any trustee. Although only one signature is legally required, many charities will expect both the Chair and treasurer to sign the balance sheet to indicate their approval.

As part of the accounts approval, the external auditor or independent examiner will expect the trustees to sign a letter of representations. This is a letter the board needs to provide to the auditors or independent examiner confirming that all records have been made available and acknowledging the trustees' responsibility for the accounts. Typically, the board will look to the treasurer for guidance on whether the detail of the letter is accurate and appropriate. The treasurer will often sign the letter on behalf of the board.

The treasurer's role in appointing external auditors

For those charities that need or choose to have audited accounts, external auditors are appointed to verify that the annual accounts are true and fair in all material matters and that funds are used in accordance with charitable objects.

Guidance from the Institute of Chartered Accountants in England and Wales suggests that the board or the audit committee of a charity should regularly review the performance of their auditors. Good communication and an honest feedback session are more likely to keep your audit relationship on track rather than regular changes in the firm undertaking the work.

The questions below are the type of questions that the treasurer could consider to undertake a review to ensure that they are getting the most from the audit relationship:

1. Is the audit completed within our timetable?
2. Does the audit partner or audit manager attend a meeting of the trustees, either as the full Board or in a committee?
3. Do we think the fees are fair? How do the fees compare to other similar organisations? How are extra services handled? Does the actual fee charged match the fee estimate?
4. Do the auditors answer queries during the year promptly and satisfactorily?
5. Do we get valuable insights into the governance and management of the charity?
6. Would the charity benefit from a fresh viewpoint? Can this be provided by rotating the audit partner or audit manager?

7. Do the auditors provide other paid-for services? Do these services pose a threat to their independence and objectivity? What is the level of fees for other services and how do they compare to the annual audit fee?
8. Do we receive information about relevant issues such as changes to charity accounting?
9. Are the auditors proactive in notifying us of changes affecting us e.g. VAT or taxation issues?
10. Can we approach the auditors for all-round business advice and do they provide relevant support?

Selecting an auditor

From time to time you will want to run a tender process to select an auditor. These processes usually rely on some written material and a structured interview.

Like any recruitment process, you need to think about the job you want the auditor or advisor to undertake, the skills and qualities you expect from them and therefore consider how you will test for those. The biggest problem with the structured interview is that it tests for presentation skills, but these are unlikely to be a significant part of an auditor's job. On the other hand, you may need someone who is good at explaining technical issues to the trustees – so why not test this attribute? Give the candidates a knotty problem and ask them to advise you.

Examples of information required for an auditor selection and how this might be obtained

Information required for selection process	How to obtain
Technically able to provide relevant services	Firm profile and biographies of individuals
Relevant sector experience	List of clients
Good client service	References from existing clients
Communication skills	Case study exercise or similar
Pro-active advice	Newsletters, website, seminars, wider involvement in the sector
Fees within the estimate - no surprises	References from existing clients
Easy to work with all staff	Meetings

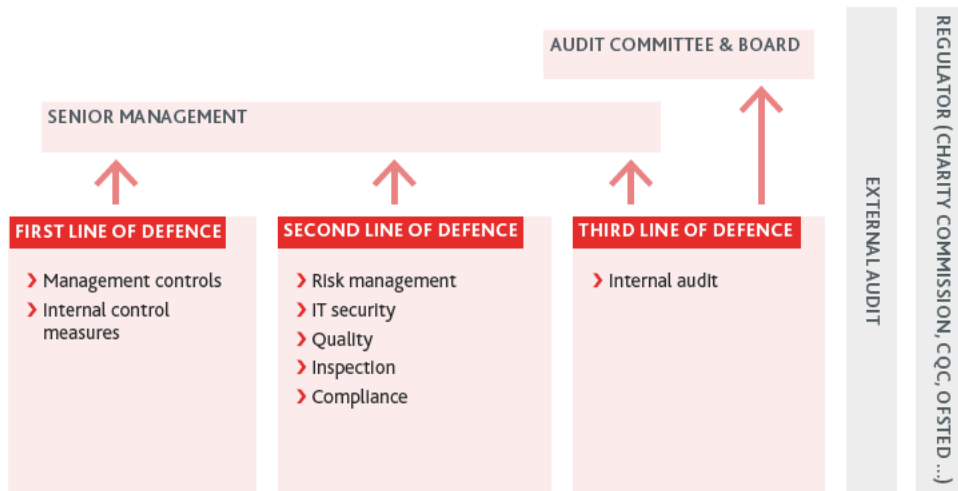
The selection process needs to reveal what the audit team are going to be like on a day-to-day basis in their operational roles. In truth the manager and on-site auditors are the people you are more likely to deal with on a regular basis. So it is a good idea to arrange for them to visit and have a meeting with your team. What are they like when they are off their guard?

Any professional advisor is going to tell you they have fantastic testimonials from their clients, but you can follow up and talk to their existing clients. It is worth following up references early in the process as then you can just meet those firms that have positive references from existing clients. Ask the firm if you can pick the clients you talk to you from their client list. That way, you can be more confident that you are not just being referred to those the firm has selected.

The treasurer's role in deciding whether internal audit is needed

It is not a requirement to have an internal audit resource. Ultimately, the board will be responsible for deciding what independent assurance arrangements are in place. Internal audit is typically only a separate function in larger charities, where it provides the 'third line of defence' in the widely accepted model illustrated below:

Three lines of defence



Adapted from 'The Three Lines of Defence' – a position paper from the Chartered Institute of Internal Auditors (2015)

1. Operational managers are responsible for maintaining effective internal controls. Controls should be part of day-to-day processes and procedures implemented by staff.
2. In larger organisations, there may be separate functions to manage risk and give oversight to the various aspects of risk management. In smaller organisations, there may not be separate functions, but the tasks will have to be carried out by management.
3. Internal audit is an independent function providing assurance on the effectiveness of governance, risk management and internal controls.

For many charities, an internal audit function cannot be justified in terms of cost but some level of reassurance is needed. You could consider low cost options first, using in-house resources.

- Conduct an internal review of financial controls using the Charity Commission checklist in CC8: internal financial controls for charities
- Review high risk areas such as new projects and new activities
- Use other existing processes to gain assurance such as quality assurance schemes, Investors in People and similar
- Develop tools for in-house internal audit activities such as checklists, audit programmes and peer review

The next step up in terms of cost would be to commission specific reviews for high risk areas or specialist areas of compliance. For example, you could ask your external auditors to extend their audit work to include a more comprehensive review of a particular area of financial control such as purchasing, payroll, expenses, Gift Aid claims or other important processes. You could ask a specialist to review

your compliance with data protection rules or your information security. These are one-off assignments to give managers and trustees more assurance.

The next level up would be to outsource internal audit activities on a regular basis to a particular firm to provide a similar service to that of an employed internal auditor. The advantage of an outsourced internal audit function is that you would have access to a wide range of skills in the firm.

The treasurer's role in approving the internal audit plan and assurance assignments

Where a dedicated resource is available, the audit plan should be presented to the audit committee for approval. The audit committee chairman usually leads the internal audit processes, but the treasurer should be asked to contribute.

The treasurer reviews the plan to ensure it is aligned with the strategic objectives and associated risks, including, but not limited to financial risks. The treasurer usually seeks assurance on both financial controls and non-financial controls and practices. For example, whistle blowing and serious incident reporting may suggest weaknesses in management practices.

The internal audit function is not responsible for risk management, nor for establishing policies and procedures. These tasks remain with the managers and the treasurer may need to help to manage the separation of duties along these lines. Internal audit can only be effective if there are proper risk management processes and internal controls in place.

CONTRIBUTING AS A TREASURER

As the treasurer, you can contribute to the effective governance of your charity in many ways. In this section, we consider some of the key aspects of fulfilling the governance role for treasurers. Some treasurers also act as a volunteer for their charity, undertaking bookkeeping and accounting tasks. Volunteer effort such as this is essential in young or small charities, however, it is not to be confused with the governance aspects of the treasurer's role. Some organisations refer to their accounting volunteer as the treasurer, but the volunteer is not a trustee. This section assumes that you are a trustee as well as a treasurer and it focuses on your governance role.

Contributing to the development of the organisational strategy

As a full member of the board, you need to contribute to the development of the strategy in the same way as any other board member. As a treasurer, it is important that you bring all your knowledge and experience to the table. Board members will appreciate a contribution that emanates from a financial perspective on the charity's work.

Important steps in the process of formulating a strategic plan will involve careful reviews of the external environment in which your charity operates and the needs of beneficiaries. Many charities will undertake a formal consultation asking beneficiaries, funders, partners, customers and umbrella bodies for their views. This can take place before you work on the strategic direction, or after you have prepared an initial draft to gain their views on strategic priorities as you propose them.

The treasurer can help to inform the debate at an early stage by making sure the finance department comes up with information about how well the charity has aligned its activities and resources to various strategic priorities or particular groups within the overall beneficiary group. This information is not usually obvious from a review of past accounts as you will need to bring together data about service users and financial information. For example, can you use data on the age profile of users, or data on the extent of need? Converting data into an understanding about the unit cost of activities may illuminate a discussion about strategic priorities. A critical discussion for many charities is about balancing the needs of different beneficiaries. If you offer different services, some will require significant time and funding per individual beneficiary, whereas other services can reach more beneficiaries at a lower per capital cost. However, the role of the trustees in reviewing the strategy is to decide the balance and here the treasurer can assist with information.

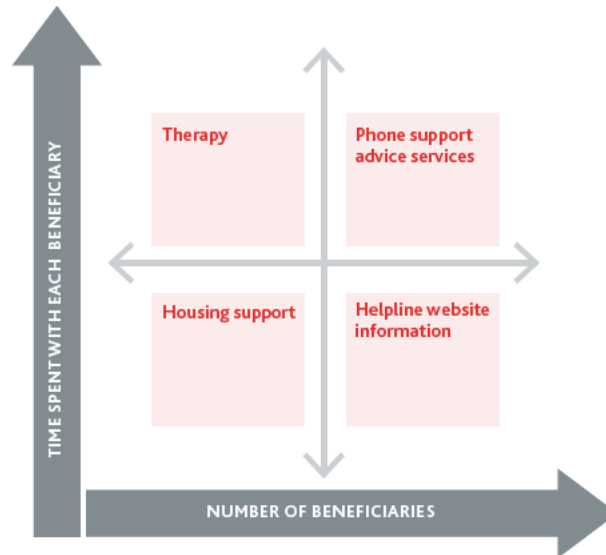
Illustration

A charity that provides a range of services to beneficiaries, from individual therapy to helpline services maps its services onto the grid as follows.

Services and beneficiaries grid

Understanding the costs per beneficiary (or other unit) can help to prioritise spending.

The treasurer can also ask further questions of the senior finance professional about the nature of expenditure – how much of what the charity spends is on fixed costs such as property, staff costs or on activity funded by restricted income?



This context will help organisations to develop an appropriate pricing policy and settle the financial goals for the activity.

Other considerations

As well as looking internally, the treasurer can help by reminding the charity to look externally. Although charities do not always consider themselves to have competitors, there may be other charities undertaking similar activities or working with the same beneficiaries. At the point of developing a new strategy, the charity should consider whether their services are still necessary and relevant. Trustees should consider whether merger with another charity would be the most cost effective way to help beneficiaries.

Developing financial strategies

It's easy to dive straight into business planning after the organisational strategy has been developed, and that means straight into budgeting. But the first job is to challenge assumptions about many aspects of the organisation's financial strategy – ideally as part of the strategy formulation process.

Charities need a financial strategy that integrates risk management and addresses pricing, cashflow, return on investment and maximising returns from all assets.

Purpose and financial aims

The first step towards establishing a financial strategy is to work out the purpose of each activity and whether its financial aim is to:

- make a profit on the activity (e.g. a fundraising event, or a social business set up by the charity)
- break even – e.g. projects funded by restricted grants
- subsidise – important activities that deliver the charity's aims which have to be funded by discretionary spending from donations or reserves

This will help to determine attitudes towards risk, a pricing policy and the level of investment appropriate for the various activities.

Investing in new activities

New activities need investment. Staff need to spend time developing a new service, building new relationships and funding may be provided in arrears or on results. For each new activity a clear business plan is needed to show the profitability in the first few years as well as the cashflow profile.

New social enterprises require viable business models. Social enterprises can often take longer than expected to get to break even or there may be strong competition, making it harder to get the desired prices.

Portfolio approach

Having a number of different activities with different financial aims and profiles helps to manage risk, but the balance needs to be right. New activities should be launched at different times. The majority of business failures are a result of cashflow problems due to over-trading - so pacing change and ensuring the change is funded is really important.

What assets do you have?

Charities often have a traditional view of assets as just bricks and mortar, but they may be sitting on other valuable assets. They may have developed a unique approach to handling a particular problem or client group, but they need to think about how to convert this into a stream of funding for their work.

Investment might include an external evaluation to validate the approach and help to develop a brand and promotional materials such as a website. They might also think about protecting their intellectual property, but to achieve that you may need to write up the methodology as well as brand it.

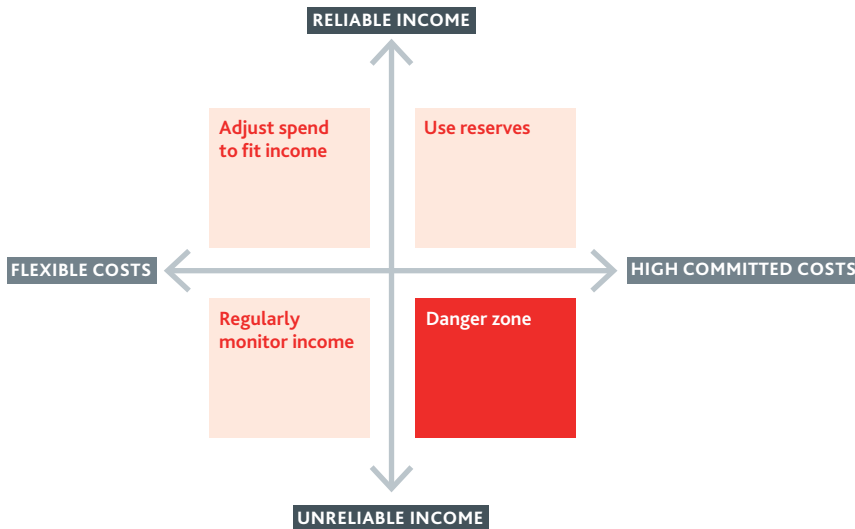
Bricks and mortar can often be used more effectively. Many charities acquire numerous properties over the years, which is an expensive option and buildings are always underused. With better technology, the need for property can be cut down, particularly with good connectivity and flexible working. Buildings could be shared and organisations just pay for what they need.

What's your current business model?

It is also important for organisations to fully understand their current business model - the way demand for services and funding for them comes together. If you have a number of different activities, you may be operating several different business models together. For example, you may be a membership charity with regular income from subscriptions, which fund the services you provide to members. You may own a building from which you generate income by letting it out as a venue. And you may also obtain grants to fund research, which is mainly carried out by your members and funded by grants you make. These are three different business models. Membership income is reliable, but the costs are also fairly fixed. The costs of operating the premises are fixed too, and so there is greater risk with hiring out the venue and there may be times when income is lower than expected. The research activity is flexible and the expenditure depends entirely on the income.

The business model, or a combination of different models, provides the first indication of the style of financial management and financial strategies your charity will need.

Business model: income and costs



Clearly, problems arise when you have unreliable income and high committed costs. This is not a sustainable business model and the charity needs a significantly different strategy. It may be best if the charity seeks a merger with another organisation that has large reserves and assets.

Reserves policies

Once the business model or combination of business models is clear, this will help you to develop an appropriate reserves policy. Your reserves policy should be risk-based – in other words, it should be based on an understanding of the financial risks your charity faces. Using the grid above, it is apparent that a charity with reliable income and flexible income does not need high levels of reserves. On the other hand, a charity in the danger zone needs very high levels of reserves – unfeasibly high.

A charity is established for its charitable purposes – it is intended that the funds provided to the charity are spent on the charitable objects. The treasurer needs to ensure that the charity can adopt an appropriate strategy based on a sustainable business model which is backed by appropriate levels of financial reserves.

Pricing strategies

Many charities do not think of pricing strategies, but simply charge for their services at cost. This might have been appropriate when charities only undertook work where they had grants and donations, but now they charge fees and work on contracts.

While you need to understand your costs to help you make good pricing decisions, there is much more to pricing than costing. You need to think about the reasons why you want to provide the service, who your ‘customers’ are and how they will pay for the service. If the price is too high, the service may be beyond the reach of the people it is designed for, or you will not get enough customers.

Perceptions of a service (or goods) may vary according to price – for example, people may think that a training course is likely to be poor quality if the price is very low. Conversely, a high price will make some people think it must be a very

good course, although not everyone will be convinced by this. So part of the pricing decision needs to consider how you want to be perceived.

For example, if your charity is the only organisation with specialist knowledge in a particular area, then it is likely that your service will be valued highly by potential customers. The upper limit to the value will be the price they would have to pay another organisation to develop their knowledge sufficiently to deliver the same service. A customer may be prepared to pay a little more than this, as your charity can offer the service immediately.

If your charity is in this position, it can set the price quite high as a way of paying for the past cost of acquiring the knowledge and experience. On the other hand, if your charity is offering a service that is already widely available, then your customers will be able to compare prices and will seek the lowest price.

An inherent part of a pricing decision is your assessment of risk factors. Risk is always present even in existing services, but will obviously be greater in a new service. The level of risk will depend on how you are providing a service and receiving funding.

- If you provide services under a **block contract** then you will usually have a degree of commitment from your funders in terms of the volume of services they are committed to buying.
- **Spot contracts** describe the type of arrangement whereby a purchaser only pays for the services they use. Under this arrangement, you are at risk that you will have the costs of employing staff and other fixed costs without any income. You should therefore charge a higher rate for the spot contract compared to the block contract.

Some contracts specifically aim to transfer risk, so you need to price this in as part of your bid.

Pricing decisions are very important as part of the financial strategies used in a charity. All funders and purchasers are making judgements about *value*. So as well as thinking about the costs of an activity as you prepare a bid or grant application, consider the value from the point of view of the funder. What is it that they want to achieve? What benefits need to be delivered for the beneficiaries of the service? What problem will you be solving?

If the funder does not consider that the price you are quoting is good value, then they may reject your bid or ask you to provide the service at a lower price. Care is needed at this point. You need to establish whether a cheaper service is needed and therefore you can lower your price and your costs. However, it may be that you have misunderstood the nature of the service required or the problem they are trying to tackle.

If you are finding that there is a lot of pressure on fees or prices, then do some research on the market in which you are operating. It may be that other providers have moved into your market. This will exert downward pressure on prices and you will have to consider your position. Either you find ways of standardising the service to reduce costs or you need to consider whether you should stop the activity.

Pricing is therefore mostly about the external marketplace in which you are operating and the external environment for your charity. Costs may be easier to study, but research and knowledge about your external environment will provide important information for your charity's decisions.

Public benefit is also a concern when you are making pricing decisions. One of the conditions of charitable status is that the charity must operate for public benefit. As part of that definition, the charity must make its services accessible to people of little means. The Charity Commission has investigated schools and care homes where high fees are charged, although the conclusion is that bursaries or fees paid by the public purse do provide sufficient access for people who cannot afford to pay the fees themselves.

Business planning

The treasurer needs to provide oversight for the business planning process. There is of course no single way to undertake business planning and treasurers will bring their own experience to this area of activity. So these are just some pointers to ways to ensure the business plans are robust and form a suitable basis for the future operation of the charity.

Strategy-based planning

The business planning process needs to start from the strategy and the management team should be focussed on producing financial versions of the plans. Most organisations prepare outline plans to match the time period of the strategic plan, but this may be five years or more. Therefore the medium-term financial plan should be a high level indication of the main financial parameters. A more detailed business plan is usually prepared for the first twelve months, although many organisations are re-considering whether the financial year is the right time period for the budget. If you are not able to plan in detail more than six months in advance (for example, if you are a campaign) then you may want to keep the detail just for the next six months, but keep rolling forward as your plans become clearer. Conversely, you may be a charity that has to plan for a long period, such as a residential care home. Twelve months is then too short, and you need a longer time horizon. Operational budgets for much of your 'business as usual' do not change very much.

The danger with preparing budgets within the accounting system is that these are too detailed as a budget number is needed for every single account code. On the other hand, you can often assume that many costs will be similar to last year and so it can be quite quick to populate the budget template. Treasurers can help finance teams and managers to focus on the areas where there is possible change and uncertainty.

Applying risk management to the strategy

One way to test plans and financial forecasts is to consider the level of uncertainty inherent in them. This also helps charities to assess the robustness of plans and to identify trigger points and when actions are needed.

What is the relationship between income and expenditure? And what are the key drivers? It is worth considering the impact on both costs and income if there are changes in the external environment or other changes that put the plans at risk.

Different types of income will need slightly different techniques for forecasting, but it should be possible to group income into categories of confirmed, probable, possible and uncertain. Once the format for this established, the degree of

certainty can be varied to test the impact on income so organisations can learn more about critical points to watch for as early warning signs.

Once a framework for preparing different versions of your financial plans is set up, it can be used to look at different scenarios and consider the consequences. For example, several versions of the budget can be prepared to show the impact of reduced levels of activity, reduced levels of income or without certain activities. If you keep budgets high level, this is easier.

In your financial planning, you should be looking at all the assumptions and areas of uncertainty. What happens to the financial plan if you change the assumptions? Really test the financial assumptions and make contingency plans. Talking these through with other people will make the organisation much more ready for change and able to adapt to change more quickly.

Cashflow is the most important aspect to planning and managing your finances. If a financial plan works from a cashflow perspective, then it should work from the perspective of income and expenditure. The timing of cash inflows and spending is crucial and ideally you want to match these. Regular re-forecasting of your cashflows is essential and the work involved can be reduced if you focus on key variables.

Monitoring the plan

Good quality financial information should help managers and trustees to make decisions, so it needs to be forward-looking as well as reporting on the past.

Charities that have significant levels of restricted funds and low levels of unrestricted funds need to monitor their financial position particularly carefully. There is a danger that the charity will start dipping into restricted funds to pay for unrestricted expenditure. The trustees will then be in breach of trust as they will not have applied the restricted funds to the purposes for which they were given. In effect, this means that charities with low levels of unrestricted funds may find that they are no longer a going concern even though they have cash from restricted funds. Charities in this situation would be well advised to talk to their funders to see if there is greater flexibility about how the restricted funds may be used.

So how can you monitor the financial position quickly and regularly? Drawing up full accounts which allocate all costs to the individual restricted funds can take time. We use a simple approach called 'the three-legged stool'.

For activities funded from restricted sources, the aim is to stay within the cost budget. Any overspend will have to be funded from unrestricted funds, so has to be avoided to preserve unrestricted funds. So the finance team should work closely with project managers to ensure that all costs are identified to the correct project, and that managers are looking ahead and planning activity and expenditure to stay within budget.



For unrestricted funds, it is the income which is most uncertain. You need to monitor actual and forecast income against the original targets and flag up shortfalls as early as possible.

Cashflow should be monitored overall. Usually it is easier to identify specific cash inflows as restricted or unrestricted, but much more difficult to split spending between these categories. As long as you are monitoring the restricted fund expenditure as well, then it is not necessary to undertake highly detailed cash spending allocations. The emphasis in the cashflow forecast is to track actual receipts and payments and predict likely patterns as accurately as possible.

You now have all the key components of information to enable careful monitoring of restricted and unrestricted funds. When you look at the actual and forecast balance at bank on the bottom of your cashflow forecast, you need to go a step further. How much should you have to reflect the balance of unspent restricted funds? This is not difficult to calculate if you have the opening balances on restricted funds, the new cash received for restricted funds and the information from the projects on their levels of spending. For reassurance, you can undertake the same calculation on unrestricted funds.

It is only by looking at all three aspects of the finances together that you can draw a picture regularly of the overall fund position. Hence it is a three-legged stool – take one leg away and it falls over.

Management accounts

Typically, managers will be provided with monthly management accounts showing their actual income and expenditure against budget. It can be useful to analyse variances and determine whether these are due to:

- timing differences – and will reverse
- a change in price e.g. the insurance premiums have been increased
- a change in volume e.g. you are employing more people so the cost of travel has increased

For the second two reasons listed, you will need to consider changes to the budget, or you will have to keep reporting the variance throughout the year. If timing is the reason for the variance, you could consider a phased budget reflecting the timing of certain large income and expenditure items. If your activities are seasonal, this can match better to workplans and cashflow.

Some management accounts will ask for a forecast or update on what managers expect the outturn figures to be. While this should be helpful, it is often a meaningless process. Managers usually feel that the first quarter is too early to be able to tell, so they effectively ignore the management accounts. Then the second quarter, there may be significant variances which suggest that things are not going to plan, but many managers will then accelerate their efforts to stick to the plan, so do not change the forecast. By the end of the third quarter, it may have become apparent that the plan will not be achieved, but producing a forecast in month 11 showing different outcomes is usually too late for management action. What is needed for successful forecasting to operate is an open culture, so managers can be open about uncertainties in their operating environment.

Flexing budgets

Charities rarely change the annual budget once it has been approved by the trustees. This is understandable as revised budgets would have to be approved and many versions of the budget can be confusing. On the other hand, it is unhelpful to be continuing to report against a budget that everyone knows is no

longer valid. For charities that are businesses, it may be appropriate to flex the budget for a change in levels of activity so that variances are more meaningful. The treasurer can help the rest of the trustees to understand how this works and thus improve the quality of the management reports.

Key to communication on performance against budget is to have clear explanations of the original assumptions underlying the budget. If these are not set out at the time of preparing the budget, changes in the external environment and your assumptions about it can be difficult to track.

Maintaining financial controls

As for any organisation, a good control environment is essential for the maintenance of financial controls. This will go beyond the basic controls of authorisation, segregation of duties to encompass people factors and good management practice.

A balanced framework of controls will provide a good control environment. The framework below can be applied at organisational level, for departments, functions or teams.

PREVENTATIVE CONTROLS	Purpose	Clear objectives linked to the organisational strategy and communicated to the whole team.
	Planning	Sufficiently detailed workplans with integrated risk analysis. Plans should be realistic and practical.
	Roles and responsibilities	Each team member should understand his or her role and responsibilities. Job descriptions should be accurate reflections of the roles and fully reflect responsibilities. Procedures should be clear on roles and responsibilities.
	Training and supervision	Each team member should receive adequate training for the role he or she is expected to perform. Processes should include supervisory functions.
DETECTIVE CONTROLS	Direct controls	Written procedures and manuals, incorporating traditional control actions such as reconciliations, batch controls and review.
	Monitoring	Review of key performance indicators and management reports to ensure that records are complete and accurate but also to flag matters of concern.
	Staff and volunteer management	Regular performance reviews and update meetings to monitor welfare of staff, workload and external pressures.
	Independent review	Internal and external audit provide assurance on the operation of controls; quality assurance, external compliance checks and evaluations also provide independent review.

Good controls

Everyone knows that you need to have internal financial controls in any organisation, but we often find that too little attention is paid to the design of good controls. A good control is one that is both *efficient* and *effective*.

Firstly, you have to remind yourself that a control is simply a response to a risk. Often we just do things because “that’s how we have always done things around here”, but we need to challenge ourselves and ask the question “why do we perform this activity? What risk does the activity respond to?” It may seem obvious that we have to undertake bank reconciliations in the finance department, but it is a control activity and it is managing risks that our accounting records are inaccurate or incomplete.

Some controls like bank reconciliations are efficient controls because they manage several risks in one activity. Another example of an efficient control is monitoring actual expenditure to budget. Managers may not realise that they are part of the charity’s control environment, but a regular comparison of actual expenditure to budget will help to identify errors as well as provide them with feedback. How many different reasons for variances can you come up with? They represent a number of different risks.

Some controls will focus on *preventing* an adverse event, such as spending the charity’s resources inappropriately. Typically, authorisation is the chosen preventative control. But this will only be an *effective* control if the person authorising the expenditure is paying attention to the right things and has the time to execute the checks properly. Simply signing off a pile of invoices without looking at them is not a control at all. At the recent CFG meeting on this topic, someone correctly observed that a more junior member of staff is more likely to check things carefully.

A *detective* control will inform you after the event that there is an error or failure in the systems. For example, a charity treasurer might periodically review expense claims for the senior staff and other trustees. This does not prevent an error, but it will detect an error or malpractice which can then be addressed.

All controls will only be effective if they are well matched to the risk they are trying to manage. For example, a finance person reviewing a staff expense claim will not necessarily be able to tell whether the costs of travel are legitimate – the person’s line manager will know whether the journeys seem reasonable.

Preventing fraud in charities

The incidence of fraud has been increasing and charities are no exception. Weekly reports of offenders being brought to justice in our courts fill the pages of the charity magazines just as they do local papers. It is sad to report, but charities are a target for fraudsters in a number of ways.

Large charities report regular cyber attacks and other apparently sophisticated methods involving hacking, credit cards, stealing bank details and more. Some of these attempts are really not so sophisticated though. Take the example of the would-be thief who created a standing order form using the bank details he found on a charity’s website. His attempt to pay himself a regular amount was thwarted because he forgot to complete the payee details. Charities want to make it easy for volunteer fundraisers to give them funds, but make sure you publish only the

details of an account that is not used for expenditure. That way, it will be obvious if unauthorised withdrawals are being made.

Some frauds are quite audacious and yet quite simple. It is common for the building company undertaking work on your premises to put up advertising hoarding to announce their presence. Fraudsters have been contacting the client (often a school or university) to advise them of a change in bank details for the building company. A neat way to divert funds that would probably not be detected for some months.

More often, however, fraud committed in charities is internal, just as it is for any other organisation. The most common fraud is to create a bogus supplier (or two) and then slip a few invoices in for payment. This is most commonly perpetrated by finance staff and it is apparently possible for this to go undetected for years. It is a simple fraud that depends on managers not actually checking invoices when they approve them but signing them off anyway.

So how strong are the controls in your organisation? Authorisation feels like it ought to be a strong control but in practice it depends on the time and energy of the individual charged with the responsibility. Ironically, this duty is likely to be discharged more diligently by a more junior member of staff.

The most important control your organisation can introduce is a strong culture that fraud is not acceptable and that it is OK to report any suspicious activity. Charities can play a strong card in this – stealing from the charity means that the money is not going to a good cause.

Risk management

The treasurer is often responsible for overseeing the risk management processes in the charity. Typically this will be undertaken as a risk mapping exercise, identifying all the risks and ranking them for probability and impact. This results in a risk register, which can then be monitored and updated regularly. Usually, the control activity to manage the risk is noted by the risk. Sometimes, the register is expanded to include other activity needed to improve the controls, together with the person responsible for implementing the action. There are many variations.

Commonly, only the top ten risks will be presented to the full board, but the audit committee and often the treasurer will see the full risk register.

Separate strategic risks from operational risks

Often the risk register is structured by the areas where the risks arise such as governance, financial and compliance. In fact, some of these are operational areas and should be the responsibility of managers.

Strategic risks faced by an organisation are more likely to be *external* risks, such as a change in political priorities which results in the withdrawal of funding. There are likely to be fewer strategic risks and these are the appropriate matters for trustees to focus on.

Typically, strategic risks will come under the following headings:

Impact	Are you making the desired impact in support of your beneficiaries and can you evidence it?
Financial sustainability	Are you managing the finances to ensure you continue to make an impact in the medium to long term?
Compliance	Are you meeting your regulatory, legal and donor compliance requirements and expectations?
Reputation	Are you able to respond effectively to any incident that could result in damage to your reputation?
Specific to your charity	Specific to the nature of the charity and may be a risk that is at the heart of what the charity stands for. For example, for a children's charity it might be child protection.

Treasurers should make sure that the risk review reports to trustees cover all these areas and provoke a meaningful discussion of the strategic risks faced by the organisation.

Seek assurance on the management of operational risks

The board should not be acting at an operational level in most charities, and so should receive adequate assurance from managers that they understand the risks and have appropriate controls in place to manage them.

THE RIGHT RELATIONSHIPS

The treasurer needs to work well with other honorary officers, trustees, volunteers and staff. This section provides guidance on the relationships and how a treasurer can excel at this role. This section focuses on the governance role of the treasurer and so applies to all charities of all sizes.

Much is written about the importance of the relationship between the chair and chief executive in charities. The relationships the treasurer has are equally important. In particular, the key relationship between the treasurer and the senior paid finance professional is vitally important.

As treasurer, you play a key role in providing strategic perspective on the finances as well as being an interpreter between the finance team and the board on the day-to-day financial management.

You do have a specific role to play as a treasurer, but it is critical you see yourself as a team member too. While ultimately you are a member of the board, you are effectively a member of the finance team too. Through building the right relationships with individuals across the charity, you can participate in these teams as well as handling any challenge that may arise when you feel conflicted.

This section comments on the nature of the relationships you have with the rest of the board, the chair, the chief executive, the senior paid financial professional and the auditors. There will be other relationships too, of course, and these may vary depending on the context and operations of your charity. Other stakeholders may include key donors, partner organisations, beneficiaries and other institutions. The principles that hold for effective relationships with your key contacts can apply to these too. Critical in all of this is a clear understanding of the difference between governance and management, and the respective roles that the treasurer and the senior financial professional should take.

Relationship with the rest of the board

Finance can be 'the elephant in the room' for trustee boards. For trustees it may be an area where they lack confidence or simply not an area of interest. If we are honest, few trustees join boards for the thrill of reviewing the management accounts. In many cases, the treasurer is the interpreter of all financial matters for the other trustees. Board members will look to you to provide a lead on financial matters. Your challenge is to engage them in financial matters such that the board can exercise its responsibilities collectively. Every member of the board is responsible for the finances, but trustees may not feel so well equipped to take on this responsibility. You do not need to convert them into finance professionals, but you do need to support the trustees to engage actively in the financial aspects of the charity. This is likely to be a continuous task, so patience is needed. Your role is to build the confidence and capability of the board members, as well as tackling the key financial decisions in front of you.

Critical in this is the creation of a culture that allows time and space for questions, making trustees feel that there is no such thing as a 'silly question'. Many trustees are reluctant to ask questions about finance, so you may need to build their

confidence by meeting them separately to go through the board papers in advance of the meeting. You might also demonstrate to them that there are areas of the charity's operations where you have less knowledge and experience. Seeking advice from trustees in areas of their expertise will show an openness and willingness to learn. This should encourage others to do the same in the area of finances. It will also demonstrate that you understand that a treasurer is not only responsible for the finances – if you are also a trustee, you are collectively responsible for all the charity's undertakings.

How well do you know your fellow trustees? Understanding their background, knowledge, experience and what motivated them to join the board could well be a route into helping them understand the finances. If they are passionate about a particular aspect of the charity's work, ensure that the finances are interpreted in terms of non-financial statistics and narrative that lifts the numbers off the page. Consider what the numbers mean in terms of aspects of the charity's work to which they can relate, for example the number of people a certain amount of funding can help.

In getting to know the trustees you can also discover how they best receive and absorb information. Do they prefer to read, listen, discuss? Do they prefer to review graphics or narrative? Do they need thinking time or are they happy to receive information on the hoof and go with it? It will probably be a mix of all these things, with different people having their own preferences. Therefore you need to vary the styles you use from time to time.

Getting the finance agenda on a new trustee's radar is important. As part of their induction process, set up a meeting with each new trustee to walk them through both the management information and statutory report and accounts. Potentially, you could run the meeting with the senior finance professional. Consider what will suit your context best. Whoever does this, it is a good opportunity to familiarise them with the finances of the organisation as well as the organisation in general. You can also gauge their level of interest and understanding in the numbers, and what motivates and interests them. You may be able to use it as an informal coaching session or this may come later. Do ask them how they like to receive financial information and what would help them.

Developing the financial capacity of your board is not something you can achieve overnight. It needs planning over time and to be done in partnership with your senior finance professional. The tools you use will vary and may include glossaries, briefing sessions, one to one meetings and reviewing the management reporting process. As well as working in partnership with your senior finance professional, consider how the charity's finance advisors might support you in this.

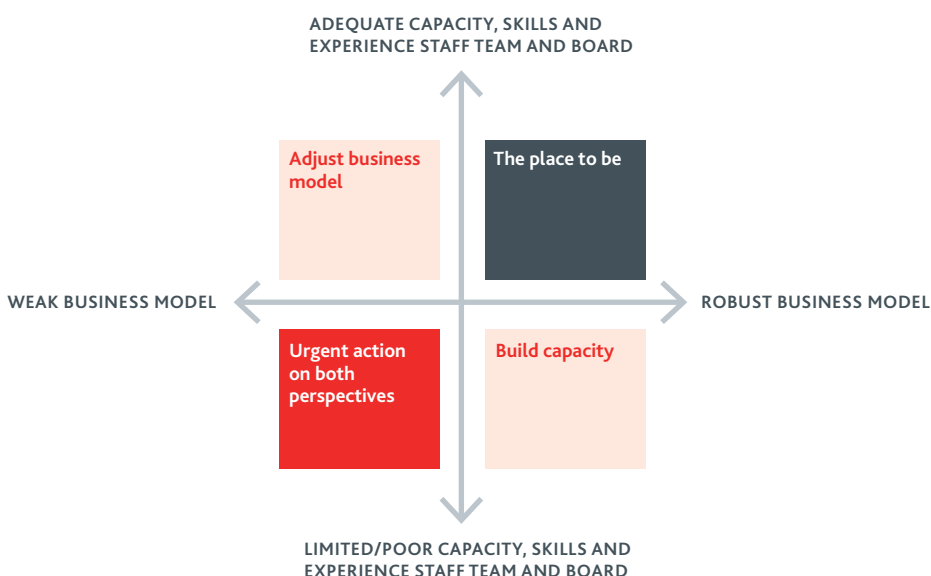
As you work on this over time, you should seek feedback. It is good practice to have a board appraisal process built into your governance framework, but this is typically led by the chair. Ask to include the area of financial management, information and skills development within the skills audit and feedback on the board. You will be only be able to evolve the financial management of the charity by taking in feedback.

Our natural inclination from our experience in management roles is to feed in financial information, providing explanations and telling others what it means. There is inevitably an element of this in the treasurer role. However, if we are to be successful in building understanding and communicating with the rest of the

board we need to be in listening and asking mode first. This will ensure we are able to position our explanations well, increasing the chances that these are received well and understood.

This guide has covered many aspects of the treasurer's role. As finance professionals, we are often focussed on the business model, sustainability and our financial management systems. This simple matrix seeks to highlight that skills, capacity and experience are equally important. It may also help you when considering your priorities.

Skills, capacity and experience matrix



Relationship with Chair

Of the relationships with other board members, the relationship the treasurer has with the Chair is an important one. You need to balance being a support and partner to the Chair as well as being the champion for the finance team and their agenda.

All the points discussed concerning the treasurer's relationship with other trustees are relevant to the relationship with the Chair. In addition, you should ensure that you work with them on a 'no surprises' basis and find opportunities to catch up between board meetings. Liaison with them on how financial matters can be adequately addressed during board meetings will pay handsome dividends. Good Chairs prepare well for board meetings and they will respond positively if you discuss the items you wish to bring to the board in good time.

Relationship with the senior finance professional

Where there are staff in a finance role, the relationship with the senior finance person is key. You will need to develop a close working relationship which is open and based on constructive dialogue. Early on, it is important to be clear about the expectations you each have of the other.

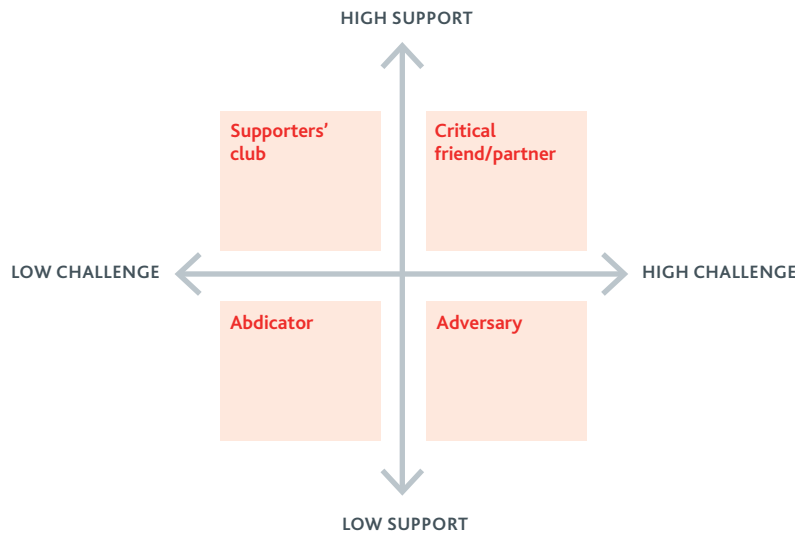
As well as being clear about expectations, it is important to have boundaries. If you are a board member, your role is to govern the charity, not to manage. You need to let your financial professional do their job. A starting point will be an established

financial framework including delegated authorities. When you are starting out on a new relationship, sit down and decide who will present papers to the board, who will lead on financial matters and how you want to work together. You also need to consider who will take the lead in external relationships, for example, with financial advisors, auditor or examiners.

This relationship has a close parallel to the Chair and chief executive relationship. That relationship, however, is more straightforward as the chief executive directly reports to the board, so the Chair is the chief executive's 'line manager'. The senior finance professional reports to the chief executive, but does need to have a relationship with the treasurer. This is often known as a 'dotted line' relationship, but it has the potential to go badly wrong. While it may well be the chief executive who carries out the appraisal of the senior finance professional, the treasurer needs to provide feedback for the appraisal and input into the target setting process.

A useful reminder for any trustee in their role with the executive is this matrix from Dorothy Dalton, which captures the balance between the right level of support and challenge at the same time as ensuring that you act as a partner and critical friend.

Support/challenge matrix (Dorothy Dalton, 2017)



Adapted from 'Support/Challenge Matrix for trustees and boards' Dorothy Dalton (2017)

Something you may want to consider with your finance professional is whether the management/staff team needs training in trustee responsibilities. This will help them understand why you and other trustees ask for certain documents and reports. We often focus our time on providing trustee training to trustees but rarely consider whether our executive team understand the responsibilities of the trustee board.

Plan the annual timetable with them and what you will be reporting to the board and when. Support your finance professional by considering their time commitments and how you can support them in terms of board preparation, and by reading papers as and when you receive them. You should find time to listen and stand in the shoes of your in-house finance team. Balance interest in the day-to-day operations and their challenges, listen and offer advice and support, but beware of interfering.

Relationship with CEO

The staff finance lead reports directly to the chief executive. As well as establishing expectations and boundaries with them, be clear on this too with the CEO. This will help manage the risk that the finance staff feel pulled between two 'bosses'. Establish in advance how you can support and work with the CEO in terms of setting targets for the finance professional and how you can input into their one to one meetings and the performance appraisal process.

Relationship with auditors

At trustee level, the treasurer is the key contact for the auditors. Typically, the treasurer only gets involved at the end of the audit process. This will be at the point when the accounts have been finalised and the management letter or post-audit report written. This may well be enough, but you may find you get more value from the audit process by seeking involvement at the outset. If you are not consulted at the audit planning stage, ask to have input. This may be a short call to catch up with the audit partner or involvement in the planning meeting; the approach depends on the most appropriate way to aid the process. It is always important not to surprise your FD or finance manager, or appear to be taking action behind their back. Agreeing with them your role upfront will be part of discussing expectations and boundaries. It is critical to be aware of the involvement you would like to have and agree this in advance. Maintaining trust and openness in your relationship with the FD or finance manager is key.

INDEPENDENT EXAMINATION

Charities below the audit threshold can opt for an independent examination instead of an audit.

Many of the points discussed here about auditors are equally relevant to the relationship with the independent examiner.

The treasurer should ensure that the examination is planned and that the independent examiner has all the information they need.

It is a good idea to be clear about who is doing what - some examiners also prepare the statutory accounts, but this is not always included in the price. If you undertake the bookkeeping yourself, ask the examiner for feedback and recommendations for improvements. Ideally, this should be written so that it can be shared with the board.

It is good practice to create time on the agenda to have a discussion alone with the auditors. Usually as part of your audit sign off process, you have a session for the treasurer and other trustees present to discuss the audit with the auditor without members of the executive team present. It is always best to have this on your agenda as a standard item. If either trustees or the auditor have to ask for this session specifically, it can be embarrassing and make the executive team nervous that there are concerns, affecting trust and relationships. Making it a normal part of the audit cycle means that the opportunity is always there for a

short independent conversation. Often the point discussed privately is the capacity of the finance team, when the treasurer can get an independent view from an experienced audit partner.

Often in charities the number of individuals with finance skills can be small – this is counting both paid staff and board members. It is therefore important to bring together a group of people with complementary skills who know and understand the charity. It is easy to overlook the auditor in this, when the audit team may be able to make a valuable contribution. The audit team is part of the finance resource available to your charity. For example, the audit partner or manager could provide training to your board on financial responsibilities. They will be sharing knowledge and good practice from an independent aspect and it is likely that trustees will take notice.

Summary

Our natural inclination from our experience in staff roles is to explain, to tell and to be quite directive. There is inevitably an element of this in the treasurer role. However, if we are to be successful in building understanding and communicating with the rest of the board we need to be in listening and asking mode first. This will ensure we are able to position our explanations well, increasing the chances that these are received well and understood.

THE RIGHT STRUCTURES

There is no 'right' way to structure the governance of an organisation. The board of trustees are accountable for everything the charity does and therefore is responsible for designing a governance structure that works for the charity, in that stage of its existence.

Overview of committee structures

Trustees work together as a collective to make decisions in the best interests of the charity's beneficiaries. However, trustees are individuals, with different areas of expertise and experiences. The challenge is in encouraging them to use their expertise and experiences in their role as trustee for the benefit of the charity.

Trustees may have expectations of others but often these expectations are not made explicit. For example, a trustee who is a finance professional is unlikely to have in-depth knowledge of all aspects of finance (audit, tax, investments), but the other board members may not understand the limitations of their knowledge. It is the responsibility of all trustees to make their experience and limitations of experience known to the group.

Where there is an assumption that a board member is an expert, then their fellow trustees may assume that all is fine with a proposal because the 'expert' has not challenged it. Other trustees may not voice their concerns because they fear seeming foolish or ignorant in front of an expert. The silence of a trustee with specific experience carries a risk and can affect the collective. Conversely, a member with experience and expertise may have an inappropriately powerful voice and may influence decision-making to the detriment of the charity.

In undertaking an appraisal of board performance or a skills audit of the board, there may be specific gaps in relevant skills (HR, legal, finance). However, you cannot assume that the selection of a new trustee with appropriate expertise will completely deal with the matter. The board needs to know how to use that expertise effectively.

Sub-committees

The trustees may decide to form sub-committees to give more time and opportunity to discuss and debate particular activities, leaving time in board meetings to focus at a more strategic level.

The role of sub-committees is determined by the board and their remit is documented in the terms of reference. The board decides on the chair and the members of a sub-committee and will also approve any delegated decision-making powers. A quorum will need to be met to enable decision making within sub-committees.

Finance committee

A finance committee gives an opportunity for more detailed financial discussions that may not be appropriate at a full board meeting. It also helps to spread the

burden of financial oversight, particularly if more trustees than the treasurer are members. This supports succession planning for the treasurer's role and builds capacity for financial oversight among other trustees.

The board of trustees remain accountable for financial oversight, but may delegate some decision-making to the finance committee. Frequent reporting of finance committee discussions and decisions should be made to the board.

The treasurer will often also be the chair of the finance committee, if there is one. There is value in having non-finance people on the finance committee as the 'obvious' questions may not be asked by those with finance experience, which could lead to decisions being made based in inaccurate assumptions.

Audit and risk committee

Audit and risk may not have a separate dedicated committee and can instead form part of the remit of a finance committee. Where there is a clear separation, the chair of the audit and risk committee should not be the treasurer. The treasurer may sit on the committee, although this works better if they are not the only trustee representation. This is because treasurers can have a fairly hands-on role in the financial controls in operation, particularly in smaller charities and the committee must be objective in their oversight.

The sub-committee should oversee the charity's risk assessment process, and ensure that the charity is managing its risk. This does not mean creating a culture that is totally risk averse. On the contrary – it should mean that the charity consciously takes risks in the areas it considers appropriate. For example, a grant-maker may *wish* to take some risks in making grant awards, but would not wish to jeopardise its income stream from investments.

In addition to some trustee and management team representation, there may also be external representation, such as internal and external auditors who will bring with them independent oversight.

Investment committee

If your charity has significant funds to invest, then it may be appropriate to set up an investment committee. Its role is to set the investment policy, appoint investment managers, review their performance and ensure that the investment objectives of the charity are met. If the treasurer is not a member of this committee, then it may be necessary to meet with its chair from time to time. It is important that the investment committee is aware of the charity's business plan and investment objectives. Similarly, the finance committee needs to understand the performance of the investments to monitor the overall financial performance.

Remuneration committee

As senior executive pay has become a more sensitive issue, many more charities have a separate remuneration committee. The committee should set the reward policy and it is usual to review benchmarking data to inform the salary scales. The committee may need to prepare statements of remuneration policy for the annual report and accounts. If the treasurer is not on the committee, the chair needs to discuss matters of remuneration policy with the treasurer to ensure that the policy is affordable and reflected in the budget.

AREAS FOR SPECIAL ATTENTION

Treasurers have a special stewardship role for the finances and the well-being of the charity. This section includes a number of areas where treasurers should pay attention and beware of pitfalls.

Making sure the charity is financially sustainable

There is no formula, but there are some pitfalls with charity finances, which could catch out the unwary.

Diverse income portfolio

As the treasurer, you need to think ahead and consider how much risk there is inherent in your income streams. Consider the risk profile of:

- A block grant from the local authority
- A contract for social services which runs for a three-year period and will be re-commissioned at the end of the contract term
- A Christmas Fayre attended by supporters and run by volunteers
- Running a chain of charity shops
- Regular giving by a large number of supporters (each only giving small amounts)
- Legacies.

It is easy to see that the risk profile of legacies is much lower than running a chain of charity shops. There is little downside risk as you are not committed to ongoing running costs. If a charity depends on a sole source for the majority of its income (such as a local authority) then it is vulnerable to changes in the economic and political temperature. Ideally, charities should have a diverse income portfolio to hedge the risks of seasonal activities, changes in the external environment affecting one activity and competition.

Match funding

Some funders require you to match their funding with funding from other sources to some level. This means that you cannot 'count' any of the funding until you have all of it - because it is conditional. Some charities have run into trouble as they have been double-counting or even triple-counting funding. This may not be apparent for a while - until your growth slows up or projects come to an end.

Cutting costs does not always save money

It depends how costs are funded, but if you lose income as well as costs, then you may not be saving as much as you think. In the case of restricted funds, you are no better off if you cut the activity. Similarly, cutting costs takes time to have effect. For example, cutting staff will initially cost you more as you pay redundancy, plus you do not have the benefit of their output.

Balancing charitable activities and management costs

Any charity has core costs and to be financially healthy you need to have sufficient charitable activities to justify your management structure. You cannot expect funders to pay for additional loading of management costs because your charitable activities have reduced (due to funding cuts). For example, if you had grown the management and admin team, plus taken on bigger premises for a big new contract two years ago, you may be facing problems as you see that contract coming to an end – scaling back is harder than scaling up.

Restricted funding means staying within budget

If your charity receives restricted funding then it is important that the funding covers all the costs of the activity, including a share of the core costs. But it also means that any overspend on a restricted fund has to be funded from unrestricted income or reserves.

Understand how costs are being allocated between funds

You do not want to get to the end of the financial year and then find that the allocation of costs leads to a deficit on unrestricted funds (and a surplus on restricted funds). This means that you have borrowed from Peter to pay Paul and it is not allowed.

Cash in the bank may not mean you are solvent

Charities often hold both restricted and unrestricted funds. By their very nature, the cashflow profile of restricted funds is usually that you receive the funds upfront. So if you are holding bank balances, you need to understand how much of that cash relates to restricted funds. Of course, if you plan to spend it on the restricted activities, that's fine. But you may not dip into the restricted funds and use them for unrestricted expenditure.

Are your reserves cash-backed?

It can be easy to be misled by a balance sheet showing positive net assets and strong reserves. If the reserves are actually tied up in fixed assets or held as debtors, then this may not be helpful. You do need cash to pay the bills. Make sure you have credit control procedures in place and get information on the age of debtors.

Project management

Charities rarely have sophisticated project management tools in place, but managing their capacity to deliver programmes of activity is often the most challenging aspect of management. Because the nature of charitable funding is often received in advance, there is often less rigour about the management of the people resources. Charities rarely expect staff to complete timesheets and even if they do record their time, it is often not used to plan and monitor the organisation's capacity and workflow.

As a result, charities can find themselves 'over-trading', although it is a variant that is less common in the commercial world. The charity continues to bid for contracts and grants to increase its income, but it does not necessarily have the capacity to deliver the volume and quality of work required. Thus, the charity can find

staff over-worked, managers particularly overstretched and funders are unhappy because programmes of work have not been completed.

This effect is exacerbated if the charity overestimates how much it can deliver for an amount of funding or underprices the work. The charity will be using the funding from new sources of funds to pay for the completion of an early project which has run out of funds.

Treasurers can help charities to avoid this risk by asking about the organisation's capacity to deliver and how it programmes its work for staff.

Managing conflicts of interest

This is a crucial area for a charity, in terms of managing its reputation but also as governance good practice. The chair of the charity will usually take responsibility for handling potential conflicts of interest on the trustee board, but this may arise in a number of different situations, so the treasurer will be able to help the chair.

Payments to trustees

Generally charity trustees are not remunerated so that a conflict of interest is not created. Trustees must act in the interest of the charity's beneficiaries, directing all the charity's resources to the charity's purpose. Without pay, trustees are less likely to act in their own self interest. A basic principle for charities is that trustees may not benefit from their trustee role.

Trustees may be remunerated for their professional duties, for example, if a trustee runs a training session at a charity that delivers training. However, this is a related party transaction and details must be disclosed in the notes to the accounts.

Similarly, a trustee or a senior staff member has a declarable interest if they (or their business) rents property or provides services to the charity. Even if the contract is on beneficial terms, this is a related party transaction and must be disclosed in a note to the accounts.

Trustees holding other office

Many trustees will also be trustees or directors of other companies. This will not necessarily create a conflict of interest, but care is needed as it depends on the relationships between the entities. There can be positive benefit from the knowledge and connections trustees bring to the board. In order to manage potential conflicts of interest, the charity should maintain a register of interests. For commercial companies and auditors, this is often a list of shareholdings - this is less relevant in a charity context. The potential conflict to be managed is more likely to be a funding relationship or a collaborative agreement with another charity. For example, one of your charity's trustees is also a trustee on the board of a small charity that has received a grant from you. That trustee is conflicted as they have an interest, so they should not participate or be present in any decision to award funding.

Senior staff having other interests

Senior staff should also complete the register of interests. The register should ask for details of businesses where trustees or staff have a significant holding. Register entries also apply to spouses and other close family members. You need

to encourage openness and disclosure in these situations, even though people have the best intentions. For example, the chief executive's wife may run a PR consultancy and she has offered to provide services to the charity for free. While this is a generous offer, care is still needed and trustees must decide whether to accept this offer in the knowledge that if the service is not delivered well enough or there is some other problem, it will create a difficult situation.

Other situations can arise, for example a senior member of staff may be running their own business as well as working in the charity. Care is needed that contracts are not being siphoned off to the private business or that the staff member's time and energy is focused on their private business at the expense of your charity.

Relatives employed in the charity

Even if a relative has been recruited through normal channels, a trustee may still have a conflict. It is when problems arise that the conflict becomes apparent, such as a disciplinary matter or if redundancies become necessary. This applies to both senior staff and trustees whose relatives may be employed. If the relative is a spouse or child who lives in the same household as the trustee, then the trustee is benefiting financially from the charity, which is not generally permitted. The Charity Commission will consider applications for permission to hire staff who are relatives, so you can ensure that the charity is following the rules. However, it is the human complications when things go wrong that the treasurer should flag. You cannot legislate to eliminate all bias as there will be friendships and informal relationships of which you are not aware. However, you do need to be aware of the risks and flag the potential problems to fellow trustees if necessary.

Conflict of loyalty

Conflicts do not always arise from a financial benefit arising from the connection – there may be a conflict of loyalty. For example, one of your charity trustees may also be a director/trustee of another organisation that is in competition with you for funding or contracts. For example, once the trustee has knowledge of the fact that you are bidding for certain contracts, it is difficult for them to 'unknow' that fact, even if they do not seek to gain monetary benefit from the situation.

Ethical fundraising

Huge damage to a charity's reputation can be caused if supporters perceive that the way the charity sources funds is unethical, or that the source of those funds is a poor fit for the charity's purpose.

Supporters are less sympathetic to the charity cause if they think that the charity is using inappropriate methods to get donations. Each charity needs to think about methods of raising funds and ensure that the fundraising strategy is appropriate considering the cause, the profile of supporters and the potential reputational damage if a negative impression of the charity is created. In practice, many of the problems charities have experienced with poor fundraising practice have arisen when they have outsourced some aspect of funding. Telephone cold-calling, street fundraising and house calls have all been the focus of attention for poor practice. Many charities have a code of ethical fundraising practice, which they can then ask suppliers to sign up to when they agree contractual terms.

Corporate support can also be a major source of reputational risk for charities. Obviously a cancer charity will avoid tobacco companies, but sometimes the ethical concerns will be less obvious. If your charity receives sponsorship from a company that has a bad reputation, then it can damage your reputation by association in the eyes of your supporters. A company sponsor that is in the news because of damage to the environment or concerns about employing child labour may create the wrong kind of news for your charity, even if your charity's cause is not the environment or children. Similar risks arise from celebrities being the face of fundraising for your charity.

Charities that use corporate support or celebrity endorsements should have a code to guide staff on the selection of high-profile supporters. It needs to be relevant to your charity and kept relevant. Before you enter into an agreement, due diligence checks should be completed to reduce the risks, although these cannot be completely eliminated.

Pay levels

Although your board may understand the need for paying competitive salaries to attract the right staff, this is controversial with the public. Accountancy regulations require greater transparency on this subject, although it does not go as far as naming key staff and the amounts they are paid on a compulsory basis.

The amount paid in aggregate to the charity's senior management team must be disclosed in notes to the accounts. In addition, the number of staff paid in each band in £10,000 steps must be disclosed if the pay rate is over £60,000 a year. In addition, the remuneration policy should be explained in the trustees' annual report. This should cover the reward policy for all staff, not just senior executives. For example, you may wish to state here if your charity does have a commitment to paying at levels that are higher than the legal minimum.

A report brought out by the NCVO in April 2014 goes further than accounting standards in terms of transparency on pay. The report recommends that full details of the pay and pension contributions paid to senior managers is disclosed on the website just two clicks away from the home page. It also recommends that you state the ratio between your highest paid employee and the median salary paid in the charity.

It is not only high levels of pay that might affect your charity's reputation. Unpaid or low paid interns may attract unfavourable publicity, as would the use of volunteers to replace paid positions. Charities need to consider their reward policies in a wide context to avoid reputational damage.

Expenses

If pay is controversial, then obviously expenses will be equally so. Expenses may be paid to trustees as well as staff. Usually there is a staff expenses policy and it is useful to align this to HMRC tax-free levels to avoid paying unnecessary tax. HMRC also operate a test for employees which is that a tax allowable expense should be 'wholly, necessarily and exclusively incurred in the course of business'. This is a useful basis for the expenses policy in a charity.

You may need to consider appropriate policies in relation to international travel. The charity may consider visits to overseas projects by senior staff and trustees

worthwhile. However, this can be seen as a perk by outsiders or as a waste of resources even by your own staff. You will need to consider how decisions on expensive trips are made and explained to others.

It is legitimate to reimburse the actual cost of travel or to pay for travel and accommodation costs for staff and trustees when they are on charity business. You will have to consider what your policy is on the standard of travel and accommodation, however. Most charities will seek the most economic option and so will not pay for first class or business class travel, or for luxury accommodation.

Similarly, charities will rarely offer entertaining, other than events such as fundraising receptions. And attendance at expensive conferences which encompass leisure activities or allow spouses to accompany are usually not appropriate for charities. Each charity needs clear policies on what is allowed, marking the difference between the corporate world and the charity world.

Ethical investment

Although it may seem obvious that charities should be able to adopt a principled stand on this issue, the matter is not so clear cut in charity law.

The trustees of a charity are obliged to maximise the value of the charity's assets and, as a consequence, to maximise the return on investments. The crucial court case on this issue brought by the Bishop of Oxford against the Church Commissioners in 1992, established that the primary interest of the trustees should be the beneficiaries. The trustees' own views on the propriety of a particular activity and therefore an investment in that activity were secondary. This case provided the basis of subsequent Charity Commission guidance that the charity may have regard to the ethical considerations of the charity's beneficiaries. So, for example, it is now accepted that it is quite proper for a charity treating victims of cancer to avoid investment in tobacco companies.

Trustees are still obliged to seek a proper financial return on their investments, so need to balance ethical concerns with the financial return. These days there are plenty of ethical investment funds which can match the financial returns of other less selective funds. This includes some unit trust funds.

For some charities, avoiding harmful activities is not enough. There are investment opportunities available that channel the investments to socially valued activities, such as producer co-ops in developing countries. Charities wishing to have a positive ethical investment policy need to consider a social investment policy and strategy.

FINDING THE RIGHT PERSON

Some organisations seem to have treasurers who are there by default, often because no-one else wants to do the job. A mismatch of person to the role the charity requires can be hard to work with. Clarity about the role and honesty at the beginning about whether people match up to the requirements is far better than living with a difficult situation.

Recruiting a treasurer

Many charity boards labour under the misapprehension that it is difficult to find trustees, and even harder to find treasurers. Yet there are many people out there looking for volunteer roles who might have something to offer your charity. There is a list of recruitment sites in the resources section.

Defining the role

You need to think first about what sort of treasurer your organisation needs at this point in the organisation's life. It is generally assumed that the treasurer should be a finance professional, but this is not always the case. As well as advising the other trustees on financial matters, the treasurer may need to support and supervise staff, lead change and new initiatives or undertake recruitment. Identify more precisely what skills you would like a treasurer to have. This will then help you to write a role description and person specification which spells out what you want from the role and the person in it.

More than a finance role

A treasurer is usually also a trustee and needs to contribute to all discussions at board meetings. A good treasurer does more than just speak up when there are some accounting issues to deal with – he or she will have a good grasp of all the activities of the charity. Understanding the links between activities, people and finances is more important than expertise in technical accounting matters.

Recruitment plan

Many charities now plan the recruitment of trustees in the same way as staff. It may be a good idea to advertise, making it clear that the role is unpaid. You will need to think carefully where you should advertise, as obviously you do want to attract people who are interested in the work of the charity.

There are a number of places where you can advertise unpaid roles for free. A list of these is provided in the Resources section at the end of this handbook.

You should interview candidates for the role and it is important to find out why an individual wants to become your treasurer. It will take a considerable amount of time, so the volunteer needs to get some form of return, even if it is not monetary.

Similar to paid roles, it is a good idea to take up references. A treasurer will usually have access to your charity's bank accounts and will become a signatory. Sometimes your insurance policies will require you to take up references.

To give both the prospective treasurer and the rest of the board time to decide whether the role is right for them, it is a good idea to offer a probationary period. During this time, the treasurer is not formally appointed to the board, but acts as an observer, attending meetings. He or she is allowed to contribute, but they do not have to take on the full role immediately.

Role description for a treasurer

A charity treasurer is a trustee and so has to fulfil the normal duties of a charity trustee, but also has specific duties as a treasurer:

- Guide and advise the board in the approval of budgets and annual financial statements
- Advise the trustees on the financial implications of the organisation's strategic plans
- Enquire as to the internal financial controls of the charity and ensure that the systems and controls are adequate for the management of the charity's activities
- Ensure that regular financial reports are received
- Guide management on the adoption of appropriate financial policies.

The role of the treasurer is to help the board carry out its duty to provide financial oversight by:

- Supplying trustees with financial information in a form that enables them to understand the financial position of the charity
- Ensuring that the financial systems in place are adequate to provide complete and accurate records of the charity's transactions, and to provide sufficient internal controls
- Providing strategic advice to the board on financial matters and considering the financial implications of strategic plans
- Ensuring that an annual budget is prepared and then monitored through management accounts
- Overseeing the charity's management of risk.

Typically, treasurers will also:

- Regularly meet with the finance staff of the charity (where there are any)
- Act as a signatory on cheques and important documents
- Ensure that proper accounting records are kept
- Review bank reconciliations and ensure other key controls are maintained
- Act as chairman of the finance committee.

In practice, the treasurer needs to ensure that the board:

- Considers and approves a budget each year in advance of the new financial year
- Receives reports on the financial performance of the charity during the year
- Approves the financial accounts for the year end
- Receives the auditor's report on the year end financial accounts

- Receives appropriate financial information to facilitate decision-making
- Formulates appropriate financial policies that support the charity's strategy, such as the charity's reserves policy, investment policy and strategy, social investment policy and will assist in developing the remuneration policy for the charity.

Note that the treasurer does not make decisions, as these should be collective decisions of the whole board. The treasurer may act as chairman to a finance committee, which will help the treasurer to discharge their duties. The committee will typically examine decisions in greater depth and make recommendations to the full board.

Skills and experience

Typically, the treasurer will be a qualified accountant, but does not have to be. In a smaller charity, it will be more likely that the treasurer has to be hands-on recording transactions and keeping accounting records. So it will be more important that they have accounting knowledge and experience. A larger charity will employ qualified accounting staff; the role of the treasurer will be to act as a sounding board to the finance director and provide a steer on strategic issues. For many complex issues in larger charities, the board will seek professional advice, so the treasurer needs to have experience of using advisors.

It is generally assumed that one individual will hold the role of treasurer, but there is no reason why the role should not be shared between two or more individuals. That way, you can play to the strengths of each person and share the workload. In a small charity, this is important to create good segregation of duties too, as it would not be appropriate for one person to be in control of all aspects of the charity's finances.

MANAGING THE INDUCTION OF A NEW TREASURER

Any new board member needs to be provided with the Memorandum and Articles of Association (or equivalent if your charity is a charter body or unincorporated). Other background material should be provided as for other board members, such as pen portraits of other board members.

In addition, a treasurer will need copies of the:

- Last audited accounts
- Latest and current budget
- Latest management accounts
- Financial procedures manual
- Organisation chart
- Risk register
- Investment policy and instructions to investment managers
- Details of other financial policies such as reserves.

Induction meetings will be needed with various members of the Board and staff:

- Chairman of the board
- Senior finance professional of the charity, e.g. finance director
- Chief executive of the charity.

The treasurer should visit the charity's offices and meet the rest of the finance team. If the charity has other offices, then a programme of visits may be helpful.

As a new treasurer, what you want to understand early on is whether there are any financial problems and how decisions involving money are made. You will also need to understand how meetings work, so depending on which committees operate, it would be worth asking for the minutes of the last years' worth of relevant meetings.

You will also want to find out from the Chair and chief executive whether the charity wants change or whether they want you to maintain the status quo. If they do want change, then you need to understand what your role should be in that change.

Managing succession

It is sensible to have terms of office for all trustee roles. Generally, guidance suggests a term of three years is appropriate, with officers permitted to serve for two terms. Many experienced treasurers will say that they only really started to operate effectively in the role after the third year, so needed the second term to get things done.

Given the long lead time for most officer roles, it is worth planning ahead and thinking about succession early. So having a vice-treasurer or a deputy who steps up to the full role after an agreed period.

RESOURCES & RECOMMENDED READING

Charity Commission guidance

- CC3: The Essential Trustee – last updated November 2016
- CC8 : Internal financial controls for charities – last updated July 2012
- CC11: Trustee expenses and payments – last updated March 2012
- CC12: Managing a charity's finances – last updated January 2016
- CC14: Charities and investment matters: a guide for trustees – last updated October 2011
- CC15c: Charity reporting and accounting – the essentials March 2015
- CC19 : Reserves: building resilience – last updated January 2016
- CC20 : Charity fundraising: a guide to trustee duties – last updated June 2016
- CC25: Charity finances: trustee essentials – last updated March 2017
- CC29: Conflicts of interest: a guide for trustees – last updated May 2014
- PB1 : Public benefit: the public benefit requirement

Sayer Vincent guidance

A series of 'made simple' guides are available to download from the Sayer Vincent website. They cover topics such as VAT, charity trading, SORP accounts.
<http://www.sayervincent.co.uk/resources/made-simple-guides/>

Sayer Vincent also produces publications, including:

- Rethinking Risk: beyond the tick box
- Beyond reserves

<http://www.sayervincent.co.uk/resources/publications/>

The Honorary Treasurers Forum

<http://www.honorarytreasurers.org.uk/index.html>

The Forum is dedicated to helping voluntary treasurers and has a number of resources.

Other publications and useful links

The Charity Treasurer's Handbook. Gareth G Morgan (2016) DSC – a good guide to charity accounting

Association of Church Accountants and Treasurers Handbook. (2017) ACAT – available to ACAT members. <http://www.acat.uk.com/index.html>

The Good Guide to Financial Management. Paul Palmer, Fiona Young, Neil Findlayson (2005) NCVO – for finance practitioners

Good Governance: A practical guide for trustees, chairs and CEOs. Dorothy Dalton (2010) NCVO – advice on roles and templates

Good Trustee Guide. Anne Moynihan (2015) NCVO
 comprehensive information about a trustee's role, and guidance on developing an effective trustee board

Code of Good Governance. Charity Governance Code Steering Group (2017)
A practical tool to help charities and their trustees develop high standards of governance. <http://www.governancecode.org/>

Report of the inquiry into charity senior executive pay and guidance for trustees on setting remuneration. (2014) NCVO
<https://www.ncvo.org.uk/images/news/Executive-Pay-Report.pdf>

Recruitment

Advertise or search for roles

There are a number of places where you can advertise or search for unpaid roles for free or for a small charge:

- [The Honorary Treasurers' Forum](#) advertises vacancies
- [Third Sector Volunteering](#)
- Recruitment specialists [TPP](#)
- The Institute of Chartered Accountants in England and Wales site [ICAEW Volunteers](#)
- [REACH](#) provides an online service to link charities and volunteers
- [Trustees Unlimited](#) provide quite low rates or free for smaller charities

Useful sources of information

- *Good Practice in Trustee Recruitment* (Toolkit). Ruth Lesirge, Rosalind Oakley, Joanie Spears (2006) NCVO <https://www.ncvo.org.uk/component/redshop/1-publications/P48-good-practice-in-trustee-recruitment-toolkit>
- *Bridging the Gap: Moving onto nonprofit boards*. Denise Fellows, editor (2014) useful section on how to become a trustee https://www.cass.city.ac.uk/_data/assets/pdf_file/0005/223970/Bridging_the_gap.pdf

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Chartered Institute of Internal Auditors for allowing adaptation of their 'Three Lines of Defence' - more information on their website: <https://www.iaa.org.uk/>

Dorothy Dalton for allowing the reproduction of the support/ challenge matrix diagram - more information on her website: www.dorothydaltongovernance.com

Honorary Treasurers Forum

The Forum helps treasurers in the important work they carry out by providing a place where they can come together as a community, share expertise and promote best practice. We do this by:

- Organising regular meetings each year with keynote speakers and networking opportunities
- Occasional seminars on key topics
- Providing a source of helpful information through updates and briefings
- Online resources including vacancy notice board
- Carrying out research and producing relevant publications
- Lobbying on behalf of treasurers.

Our aim always is to help our members be better informed and more confident in their role as Honorary Treasurer.

Sponsors

The Honorary Treasurers Forum are very grateful for the very generous support of our sponsors:

Bates Wells Braithwaite



Bates Wells Braithwaite have the largest team in the UK working for charities and social enterprises. They have led a number of groundbreaking legal reforms including the creation of the community interest company and the negotiation of sustainable development as a charitable purpose. As solicitors they cover the whole spectrum of charity work.

Cass Business School Centre for Charity Effectiveness



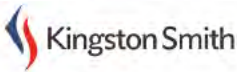
Since its formation, Cass Centre for Charity Effectiveness (Cass CCE) has significantly increased the effectiveness of hundreds of organisations and thousands of individuals across the sector. We have achieved this by combining our extensive practical experience with best practice theory and research which we have delivered via a blend of postgraduate programmes, research, talent development and consultancy services.

Ecclesiastical



Ecclesiastical is a specialist British owned insurer. We have been helping to protect charitable organisations in the UK for more than 125 years and currently insure over 40,000 UK Charities and voluntary groups within the Ecclesiastical Group. We are also owned by a charity and over the past five years we've provided over £55m to charity, making us one of the top 10 corporate donors in the UK. This experience means we fully understand the varying and often complex requirements of the charity sector, and enables us to provide unique expertise to our customers and brokers through our tailored underwriting, risk management and claims.

Kingston Smith



Kingston Smith LLP is recognised as one of the leading firms of accountants and professional advisers in the not for profit sector. Our clients range from well-known national charities to local voluntary groups, including foundations, membership bodies and umbrella groups, educational and healthcare organisations. Through our unique range of specialist services and expert knowledge of the sector, we can help you to achieve your objectives and make the best use of your resources.

UBS Wealth Management



UBS is committed to helping charities by successfully managing investment portfolios, and they currently manage the assets of over 300 UK charities. UBS has a dedicated team of investment specialists who have advised charities over many years and understand the challenges unique to the sector. Many of the products and services have been specifically designed and can also cater for any ethical considerations and meet socially responsible investment criteria.



Sayer Vincent LLP, Invicta House, 108-114 Golden Lane, London EC1Y 0TL. Telephone: 020 7841 6360.

www.sayervincent.co.uk



Honorary Treasurers Forum, c/o Centre for Charity Effectiveness, Cass Business School, 106 Bunhill Row, London EC1Y 8TZ. Telephone: 020 7040 8781.

www.honorarytreasurers.org.uk

Honorary Treasurer's Handbook

Kate Sayer, Judith Miller and Arlene Clapham

Edited by Denise Fellows

