

Accounting controls

Howard Jackson identifies ten warning signs that may indicate all is not well in the finance department.

TRUSTEES AND CHIEF executives of charities really have their hands full nowadays. Not only do they have to comply with more regulation than ever before and keep abreast of their governance responsibilities, but we are possibly heading for increasingly difficult financial times and the challenges that these will bring to not-for-profit organisations.

In our increasingly litigious society, there are rules against discriminating on grounds of age, race and religion, plus tighter deadlines for filing of accounts and annual returns. Managers reluctantly accept the need to deal with these when they're running their own business, but the increased pressure is unwelcome when they are unpaid trustees of a charity.

The position of CEOs is hardly any different. Granted, they (usually) get paid for their work, but they have to balance the need to instil commercial regimes with the obligation to seek the greater good of the charity, all of which is often rewarded with salaries lower than in mainstream commerce.

So, with many charities facing reduced incomes, in part due to lower grant income from the state, and also facing lower donations from the public, how can civil society organisations deal with budgets under pressure and strategies that need to be reassessed?

A key to dealing with such challenges is having strong financial leadership and an equally strong accounts department. Accurate cashflow forecasts will be vital to ensure that the timing of financial difficulties, if they are likely to arise, can be foreseen and appropriate action taken.

Even for those charities which consider themselves likely to buck the trend and actually increase their income, this in itself will pose major challenges with potentially overstretched resources. Some charities may see a merger as a way out and will be keen to ensure that their eventual contribution in an enlarged organisation is properly rewarded.

“**Look out for a few simple warning signs that can be easily spotted**”

Good-quality financial information will be therefore essential and many trustees and CEOs rely on their accounts team to provide this. But what if all is not right in the team and the information isn't there? Will the trustees and senior management base their decisions on inaccurate information? Will the organisation's assets disappear through unscrupulous practices?

Boards without financially astute CEOs or trustees, and even those with trustees who have the appropriate skill-sets but don't get close to the business, will place significant reliance on their accounts team.

Staff in the accounts department are often in a position of trust, and even segregation of duties won't completely remove the possibility of them abusing that trust. A struggling economic climate can exacerbate personal hardship and accounts staff acting with integrity can be tempted when their own financial circumstances become difficult.

Smaller charities may have limited segregation of duties for staff. Some may give authority to a member of the finance team to set up and make payments on their own. Internal controls are always important, but as temptation increases so does the risk of loss from lack of control.

Of course, the outcome of misappropriation of funds is bad in any situation, but with charities, their trustees have increased responsibilities and commitments. After all, the public or a settlor has placed substantial assets in their hands and trustees need to be conscious of the reputational risk associated with such situations.

As a firm of finance directors which has worked with a multitude of different charities over the years, we have got to know the early signs of trouble. Often we get called in after the horse has bolted. However, look out for a few simple warning signs that can be easily spotted to prevent a situation turning from bad to catastrophic.

Set out opposite is a table with ten warning signs that could alert you to potential problems. You may not be able to prevent a problem arising, but these may help you spot that a problem exists so you can deal with it. ■



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Indications of potential problems in the finance department

	Warning signs	What you might do
1	Frequently drawing on reserves; creditors chasing unpaid invoices; HMRC pursuing unpaid tax; landlord chasing rent.	Request an up-to-date balance sheet plus detailed aged creditors and a cashflow forecast. If your accountant cannot produce these promptly, seek external advice and an independent review.
2	Management accounts arriving late or not at all; deadlines being missed; inconsistencies between schedules.	Set a timetable for accounts production and seek confirmation that it can be met. Consider an external review to assess whether systems are inefficient or whether unnecessary reports are being produced. Ask your finance function to take an extra copy of every report they produce in a month, review the file early next month and consider slimming it down. Think about the most important KPIs and ensure they are reviewed.
3	Dominance by one individual and any query is directed to that one person.	Segregation of duties may be difficult in a small accounts department. Ask to see holiday and sickness cover plans and job descriptions. Tackle the dominating behaviour.
4	The accounts department has papers and files everywhere and accounts staff are working long hours or coming in at weekends on a regular basis.	Suggest a clean-desk policy; ask why work cannot be completed in regular hours. Consider longer-term planning for peak workloads and agree a budget in advance. Busy offices are hard places to do work that requires great concentration, so consider allowing some days to be worked at home.
5	Aged debtors profiles are worsening, credit control stops functioning.	If accounts are up-to-date and accurate, consider using a third-party collection service for existing debtors and collecting future monies by direct debit or standing order.
6	Lack of communication with the accounts department and others in the organisation. Managers don't know balance of uncommitted budget.	If the accounts department is functioning well and this is just a communication issue, senior management needs to review the whole office culture. Consider sending the head of finance or all senior managers on a 'Finance for non-accountants' course.
7	Not achieving audit timetable; auditors kept waiting for information or for queries to be answered; audit has cost over-runs due to delays or poor information.	Keep in touch with your audit partner and ensure frequent communication throughout the audit process. Request sight of the audit file two weeks before the next audit starts – get familiar with the role of the auditors.
8	High staff turnover and frequent use of temporary staff.	Request a review of the accounts function, with updated job descriptions and specifications if required.
9	Your request for the cash position and forecast is unanswered; unexpected use of an overdraft facility.	Ask for a bank reconciliation and if not complete make it a number one priority. You need an accurate cash book position and a clear business plan setting out the direction of the charity with a matching financial plan.
10	Your accountant appears to be living beyond his/her means. Police call to say they arrested your accountant.	Request external assistance. Check your insurance policy. Change the locks and all computer passwords.