

# ACE VALUE

FINANCIAL HELP FOR THE VOLUNTARY SECTOR

Issue 13

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## In this edition ...

Chances are that sometime in the last week or so when wanting to cross the road, you saw a break in the traffic and nipped over without waiting for the 'green man' symbol at the crossing to appear. What you were doing is thinking about and weighing up the risks of your proposed action before making your decision to cross. Risk management is something we do all the time; here, you managed the risk of crossing the road against the lights by waiting until the flow of cars had slowed down. In this edition of 'ACE Value' we take a look at risk management in voluntary and community organisations and why it's a good idea to have a formal risk management process. If you've ever spent a lot of time preparing an annual budget and then never looked at it again, our article on 'Budgetary Control' shows how the budget can be used to monitor and report actual income and expenditure to the board of trustees or the management committee. Finally, we include a warning from the Charity Commission about another scam, this time direct debit fraud.

## Risky business

### What do we mean by 'risk'?

In everyday life when we say 'I'll take the risk' we're often gambling that the results of particular actions will be favourable to us. For an organisation, however, the word 'risk' has several different meanings. A risk can be anything which has the potential to stop your organisation achieving its goals but it can also be about taking appropriate risks to achieve objectives. Risk management is about identifying opportunities as well as negative risks.

### Identifying risks

Since a risk can be anything with the potential to prevent organisations achieving their goals, it is helpful if the risk

identification process is rooted in the objectives of the organisation - what it was set up to do.

As prompts for identifying risks, it can be helpful to think in terms of:-

- Loss of...for example, the loss of a major funder could have a serious impact on an organisation's ability to continue operating;
- Lack of...for example, a lack of timely management information about income and expenditure can lead to poor decision making and, ultimately, insolvency;
- Non-compliance with...for example, non-compliance with health & safety legislation can result in a hazardous workplace with risk of accidents and

injuries and damaging compensation claims;

- Inability to...for example, organisations are often unable to submit applications to the larger grant-giving bodies such as The Big Lottery because they do not have the necessary time or skill to prepare complex bids.
- Increase in...for example, a rent increase may make office space prohibitively expensive.

In generating the list of risks, consider both threats and the consequence of the threat materialising.

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"The recession has made clear that, now more than ever, charities need good strategic leadership and the ability to mitigate risk and seize opportunities."

Ralph Michell,  
Head of Policy,  
Association of Chief Executives of Voluntary Organisations (Acevo).

## Risky business (continued)

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### Categorising risks

When identifying risks, you need to think widely about internal and external factors that could affect the organisation. **Don't just think about financial risks.** Consider the following categories and examples of the risks that can arise:-

People	<ul style="list-style-type: none"> <li>• Loss of key personnel</li> <li>• Inability to recruit because unable to pay market rates for posts</li> </ul>
Operational	<ul style="list-style-type: none"> <li>• Lack of clear plans</li> <li>• Lack of budgetary control</li> </ul>
Financial	<ul style="list-style-type: none"> <li>• Lack of timely and accurate management accounts</li> <li>• Costs or products and services not accurately calculated</li> <li>• Lack of cash-flow management</li> <li>• Fraud or material error</li> </ul>
Strategic	<ul style="list-style-type: none"> <li>• No clear objectives, priorities or plans</li> <li>• Needs of beneficiaries not fully addressed</li> </ul>
Funding	<ul style="list-style-type: none"> <li>• Short term</li> <li>• Over-reliance on one or two main donors or grant-givers</li> <li>• Poor cost recovery</li> </ul>
Competition	<ul style="list-style-type: none"> <li>• Reduced fundraising potential</li> <li>• Loss of income</li> <li>• Reduced organisational profile</li> </ul>
Management	<ul style="list-style-type: none"> <li>• Poor decision-making procedures</li> <li>• Too many cooks with resulting uncertainty about roles and duties</li> <li>• Decisions made at inappropriate level or excessive bureaucracy</li> </ul>
Information	<ul style="list-style-type: none"> <li>• Too little information about outcomes so it's difficult to demonstrate effectiveness</li> <li>• Data scattered through the organisation in different databases</li> </ul>
Regulatory	<ul style="list-style-type: none"> <li>• Losing an employment tribunal because appropriate procedures were not followed</li> <li>• Failing to satisfy the Charity's Public Benefit requirement and the risk of losing charitable status</li> </ul>
Reputation	<ul style="list-style-type: none"> <li>• Poor delivery of service contract leading to beneficiary complaints</li> <li>• Loss of fee income</li> </ul>
Technology	<ul style="list-style-type: none"> <li>• Systems fail to meet operational needs</li> <li>• Failure to innovate or update systems</li> <li>• Loss or corruption of data</li> <li>• Inadequate support</li> </ul>
Government policy	<ul style="list-style-type: none"> <li>• Availability of grant and contract funding</li> <li>• Changes in policy affecting beneficiary group</li> </ul>
Governance	<ul style="list-style-type: none"> <li>• Trustee body lacks relevant skills or commitment</li> <li>• Board of Trustees dominated by one person</li> <li>• Trustees have a conflict of interest</li> </ul>
Disaster recovery & planning	<ul style="list-style-type: none"> <li>• Destruction of property, equipment and records through fire, flood or similar damage</li> </ul>

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# Risky business (continued)

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## Assessing the risks

Once the risks have been identified (and you'll probably have a long list), they need to be assessed, The key factors are:-

- Likelihood - this refers to the probability that a threat will materialise
- Impact - this relates to the effects that would be felt if the event occurred.

A scoring system for both likelihood and impact should be agreed such as:

### 1) for likelihood

1	Very unlikely	Barely feasible to occur
2	Unlikely	Extremely unlikely in the near future but possible in the longer term
3	Possible	Not very likely in the immediate future, but reasonably likely in the longer term
4	Likely	Possible in the current year and probable in the longer term
5	Highly likely	Probable in the current year, and highly probable in the longer term

### 2) for impact

1	Insignificant	Nothing to worry about
2	Fairly serious	Possibly important but can be managed with some time & resources
3	Serious	Would cause problems and would take up time and resources
4	Very serious	Would hinder the achievement of our objectives and/or would consume considerable time & resources
5	Major disaster	Could cause the organisation to close

This is a subjective process; every person involved will come to different conclusions about the perception of a particular risk. You can use worksheets such as the one below to rank risks according to priority.

	Likelihood (Column A)	Impact (Column B)	Total (Columns A x B)
Computer crash	4	4	16
Loss of major funder	3	4	12
Key person leaves	5	2	10

## Action plans

The actions you plan to take depend on the nature of the risk. All of the following are appropriate responses to risk in some circumstances:-

- Avoidance
- Minimise the likelihood of an event happening
- Mitigate the risks by developing a response plan
- Transfer the risk, for example by taking out insurance
- Accept the risk, i.e. continue in the same way while acknowledging there are risks.

You could table these as:-

Impact	Likelihood	Action
High	High	Avoid or minimise likelihood
High	Low	Mitigate effects or transfer
Low	High	Minimise likelihood or accept the risks
Low	Low	Accept the risks

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"We know 2010 is going to be a challenging year for the voluntary sector so if you manage your risks effectively you will be able to maintain the financial control and viability of your organisation."  
Stuart Etherington, CEO, National Council for Voluntary Organisations (NCVO)



Risks can come from uncertainty in financial markets, project failures, legal liabilities, credit risk, accidents, natural causes as well as deliberate attacks. An effective risk management strategy will not only keep your board happy but can also help to save your organisation money and ensures a safe and stable environment for your employees/volunteers and customers.

(NCVO)

## Risky business (continued)

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### Action plans (*continued*)

Where the likelihood is high for an internal risk such as a loss of data through a computer crash, then organisations can take action to minimise the likelihood of the event happening. With external risks, however, such as a change in government policy, then there is little the organisation can do to prevent the threat from materialising. It has to consider whether it can mitigate the situation if the event did happen.

Trustees have to consider the level of risk that they are prepared to accept. They also need to balance the cost of controlling or mitigating risks; costs need to be proportionate to the costs that would arise if the risk materialised.

### Developing a risk register

Keeping a register is useful because it draws together the key information for the highest priority risk such as:-

- clear identification of the risk
- the consequences of the risk materialising
- actions required to manage the risk
- a description of the controls already in place
- further action required with named individuals and timescales.

### Example page in a risk register

Risk	Consequences
Fraud or material error	<ul style="list-style-type: none"> <li>• Financial loss</li> <li>• Loss of reputation</li> <li>• Prospect of regulatory action (e.g. Charity Commission investigation)</li> <li>• Impact on ability to raise funds</li> </ul>
Controls required	Existing controls
<ul style="list-style-type: none"> <li>• Segregation of duties</li> <li>• Financial control procedures</li> <li>• Authorisation limits</li> <li>• Physical security over assets</li> <li>• Spot checks on transactions</li> </ul>	<ul style="list-style-type: none"> <li>• Limited - all accounting records kept by one person</li> <li>• Nothing formal in place</li> <li>• Clear written limits</li> <li>• Limited - IT equipment easily removed from premises</li> <li>• None at present</li> </ul>
Further actions needed	Who by and timescale
<ul style="list-style-type: none"> <li>• We cannot recruit additional staff to solve problem of lack of segregation of duties so trustees must carry out spot checks on accounting records</li> <li>• Treasurer to receive copy of bank statements and to review transactions</li> <li>• Financial Procedures manual to be prepared and distributed to staff and volunteers.</li> <li>• Insurance policies to be examined to ensure theft by staff or volunteers is covered</li> </ul>	<ul style="list-style-type: none"> <li>• Trustees by mid-February</li> <li>• Treasurer to ensure copies of statements received from 1<sup>st</sup> February</li> <li>• Treasurer + Board of Trustees by mid-March</li> <li>• Chair by 1<sup>st</sup> February</li> </ul>

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# Risky business (continued)

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## Monitoring and reassessment

Risk management is not a one-off event and should be seen as a process requiring monitoring and assessment. Remember, risk is an inherent feature of all activity and the aim is not eliminate all risks, which is impossible, but to ensure they are manageable.

### Sources:

'Charities and Risk Management' published by the Charity Commission available from:  
<http://www.charitycommission.gov.uk/investigations/charrisk.asp>

'Risk assessment made simple' publication by Sayer Vincent available from their website:  
<http://www.sayervincent.co.uk>



## Budgetary control

Budgets are an essential tool for monitoring and controlling the use of funds and checking an organisation is on track. The focus of budgetary control is to answer key questions such as:-

- How are we doing?
- How much of the budget is left?
- Where will our reserves be at the end of year?

The Board of Trustees or management committee must ensure they see timely regular financial reports that compare actual results against budget so they can either take corrective action or be reassured that everything is going to plan. The most important aspect of budgetary control is checking the difference between actual and expected results. These differences are called 'variances'. When actual results are better than expected, the resulting variance is described as 'favourable'. When actual results are worse than the budget, the variance is described as 'adverse' and is usually denoted by being shown in brackets.



Small differences are to be expected and do not usually

require further comment or action. The variances that do require investigation and explanation are those that are between 5% and 10% or more of the target figure and involve significant monetary value. The cause of the variance needs to be determined. Care needs to be taken to ensure this does not become a 'blame-game'; the purpose of the control process is to ensure appropriate action is taken to get the organisation back on track.

It is important to determine whether the variance is:-

- Controllable - that is, due to factors within the organisation that can be rectified
- Non-controllable - owing to factors outside the organisation's control. Large non-controllable variances such as changes in government policy may require an organisation to rethink its business plan.

Several factors give rise to variances such as:-

- Increases or decreases in the cost of goods and services. These may be as a result of individual suppliers increasing their prices or across-the-board increases as a result of, say, an increase in the rate of VAT.
- Increases or decreases in the levels of activity. For

example, an organisation that has not filled a vacancy for a fundraiser will not be doing much of the fundraising activities it had budgeted for.

- Timing differences. The budget assumes a grant instalment will be received in one month whereas it is actually received in the following month.
- Misallocation of income or expenses. An invoice for, say, printing is misallocated to postage causing a favourable variance on one expense line and an adverse one on the other.
- Budget errors. Sometimes the budget is just plain wrong!



Trustees and management committee members **must** understand what a variance means in the context of planned activities. Positive variances are not always good news. To continue the example given above, an unfilled fundraising post saves money on salaries but the income for future periods may be lower than expected since no-one is currently working on funding applications and bids.

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ACE runs a "Budgeting and Reporting to the Management Committee" training course.

One attendee in 2009 said:

"This [course] will ensure that more financial control is taken by myself and other managers within my group.

Straight-forward, simple and easily understood training with the use of excellent examples."

The course will take place on Tuesday 23 March.

See page 7 for more details.

The services ACE offers include:

- Help and advice via telephone and email
- Preparation and independent examination of accounts
- 'ACE Value' Newsletter
- Training courses
- Training for groups at their premises
- Budget / cash-flow statement preparation
- Financial health check
- Writing a financial procedures document with a group
- Advising on and setting up financial systems
- Other consultancy work for organisations

Do contact us for further information.

## Budgetary control (continued)

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### Budget reporting

A typical budget report would have the following headings:

Income & Expense type	Annual budget	Budget to date	Actual to date	Variance to date	Variance %	Budget remaining
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The following notes explain what each column includes:

Column	What is it?	Comments
Income and expense type	Description of the type of income or expenditure e.g. 'Grants'; 'Donations'; 'Salaries'	
Annual budget (A)	The annual budgeted amount for the year.	The total of this column should be the same as the amount approved by the governing body
Budget to date (B)	The amount expected to be earned or spent at this point in the year	Figures should reflect the expected pattern of income & expenditure and not an arbitrary 1/12 <sup>th</sup> of the total per month
Actual to date (C)	The amount that the accounting records show has been received or spent to date	Used to establish current position. It is important to know whether this figure includes amount invoiced but not yet received or expenditure already incurred but not yet paid for
Variance to date = B minus C	The difference between the budget and actual results which reflects the under or over spend	This should be investigated if significant
Variance to date % (B minus C) divided by B x 100%	Percentage calculated by dividing the 'variance to date' by the 'budget to date' and multiplying the resulting figure by 100	Indicates the relative extent to which actual figures differ from what was expected at this point in the year
Budget unspent = A minus C	The amount of money that either has to be raised or which is available to spend for the rest of the year	It is important to know if this takes into account commitments i.e. expenditure not yet physically incurred but which cannot be avoided

Reports of actual results against budget are the primary tool by which a manager or Trustee Board can assess if an organisation's finances are on track.

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<p>Course bookings / general enquiries, email: <a href="mailto:info@acecas.org.uk">info@acecas.org.uk</a> (see page 8 for our address &amp; phone number)</p>	
<p>Sue Cullum ACE Manager <a href="mailto:sue.cullum@acecas.org.uk">sue.cullum@acecas.org.uk</a></p>	<p>Joseph Yongo Community Accountant <a href="mailto:joseph.yongo@acecas.org.uk">joseph.yongo@acecas.org.uk</a></p>
<p>Siobhan Bailey Training Officer / Community Accountant <a href="mailto:siobhan.bailey@acecas.org.uk">siobhan.bailey@acecas.org.uk</a></p>	<p>Richard Mico Community Accountant / Administrator <a href="mailto:richard.mico@acecas.org.uk">richard.mico@acecas.org.uk</a></p>

## Budgetary control (continued)

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The following is an example of how a budget report might look for an organisation that has a year end of 31 March 2010 and is preparing a budget report for the period 1<sup>st</sup> April 2009 to 31<sup>st</sup> January 2010.

Income & Expense type	Annual budget	Budget to date	Actual to date	Variance to date	Variance %	Budget remaining
	£	£	£	£	%	£
Salaries	28,700	25,000	21,900	3,100	12	6,800
Rent	11,000	8,250	8,250	0	0	2,750
Postage	1,300	1,000	800	200	20	500
Stationery	1,500	1,200	1,190	10	1	310
Telephone	3,000	2,250	3,500	(1,250)	(56)	0

What factors might have contributed to the financial position on the selected budgets? Possible answers are deferred or delayed activities including recruitment, budget errors and increased demand for services. Answering these questions will help the trustees or management committee members to decide what actions, if any, should be taken.

### Training Diary: March 2010

Date	Course	Venue
Thursday 4 March (10 am - 2.30 pm)	Basic Bookkeeping (lunch is provided for this course)	Dagenham
Wednesday 10 March (10 am - 2.30 pm)	Roles & Responsibilities of Trustees and the Trustees' Annual Report (lunch is provided for this course)	Ilford
Tuesday 23 March (10 am - 1 pm)	Budgeting and Reporting to the Management Committee	Dagenham

Details are subject to change but are correct at time of going to press.

Lunch is provided for courses which finish at 2.30 pm.

ACE training courses are also advertised on these websites:

www.bdcvs.org.uk  
 www.havco.org.uk  
 www.redbridgecvs.net  
 www.citycomm.org.uk  
 www.elcvnetwork.org.uk

#### 2009 Evaluation Feedback Form

We are very grateful to everyone who took the time to complete and return the 2009 evaluation form we sent in November to those who had used our service in the previous twelve months. We do read what you send us and your feedback does make a difference! Thank you.

The winner of the prize draw was Olivia Morgan of Redbridge Forum.  
 Olivia won a £30 gift card.



### Training venues

Forest House,  
 16-20 Clements Road,  
 Ilford,  
 IG1 1BA

St. George's Centre,  
 St. George's Road,  
 Dagenham,  
 RM9 5AJ

## ACE (Accounting for Community Enterprises)

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19/21 Eastern Road  
Romford  
Essex, RM1 3NH  
Phone: 01708-735214  
Fax: 01708-721312  
Email: [info@acecas.org.uk](mailto:info@acecas.org.uk)

ACE is part of **havco**, the  
Havering Association of  
Voluntary and Community  
Organisations

*A professional approach to  
community accounting for East London*

ACE works in association  
with Redbridge CVS and  
Barking & Dagenham  
CVS



and in association with  
CITY.COMM



ACE receives funding  
from London Councils  
and from the London  
boroughs of Havering,  
Redbridge and Barking &  
Dagenham



## Charity Commission warns of direct debit fraud threat

As you all know, there are some very clever people out there with some very creative ideas on how to get their hands on your charity's money. The Charity Commission has just issued a warning about the latest scam. This one involves fraudulent direct debits being set-up on charity bank accounts, resulting in the abuse of charity funds.

### How does it happen?

Alas, all too easily. Many charities put their bank account details (account number and sort code) in the public domain when inviting donations via websites, fundraising materials, gift aid forms, advertising campaigns etc. These details are all a fraudster needs when setting up an online direct debit to pay for, say, a mobile phone contract or insurance or any goods or services that can be paid for by instalments.

### What can charities do?

**Prevention** - be pro-active and write to your bank informing them that no further direct debits should be set up on your accounts without the specific approval of the named cheque signatories.

**Detection** - you must ensure that bank statements are regularly checked and reconciled with your cash-book. Any new direct debits must be investigated. **Do not enter suspect direct debits into your cash-book assuming that if something is on the bank statement, then it must be alright.**

**Redress** - under the direct debit guarantee scheme, if your charity has been wrongly paying a direct debit, you can reclaim this money from the bank. It is then the bank's responsibility to reclaim this money from the supplier.

## Charities and elections

The Charity Commission has issued guidance called *Charities and Elections* for use by charities during the period between the announcement of an election, and the date on which an election is held. It applies to both national and local elections.

### Charities and Elections

Guidance update - January 2010



The Commission advises that this brief guidance should be read in conjunction with their more detailed guidance on the wider subject of *Speaking Out: Guidance on campaigning and political activities by charities* (CC9). The principles described in *Speaking Out* continue to apply during an election period and this guidance sits alongside other requirements, such as electoral law, which apply to charities and non-charities alike.

Charity Commission's Chief Executive, Andrew Hind, said:

"Charities' independence is vital to society and valued highly by the public. They must always remain politically independent, but trustees should be particularly aware of this during the election period. Charities have an important role to play in the discussion and debate that takes place at this time but they can become involved, or perceived as being involved, in party politics unintentionally. Our practical guidance contains clear legal and good practice advice to help charities ensure that they retain the essential quality of their independence whilst being able to use their voice effectively at election time."

There are a number of ways in which a charity may be at risk of becoming embroiled in party politics, albeit unintentionally. This guidance considers in turn Policies, Publicity, Parties, Candidates and Facilities.

To download this guidance, go to  
[www.charity-commission.gov.uk/supportingcharities/elect.asp](http://www.charity-commission.gov.uk/supportingcharities/elect.asp)  
or to view as a PDF, go to  
[www.charity-commission.gov.uk/Library/supportingcharities/pdfs/elect.pdf](http://www.charity-commission.gov.uk/Library/supportingcharities/pdfs/elect.pdf)

**IN THE NEXT ISSUE: A LOOK AT INSURANCE**