

Financial controls, management accounts and budgeting



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In this
session we
will
consider

What are financial controls and some practical examples for a small non-profit organisation?

Why do we need management accounts and what should we include in them?

How do we develop a budget and how we should use it?

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Question 1:

What are financial controls and some practical examples for a small non-profit organisation?

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Safeguarding charity resources

Trustees must act **collectively** with care and diligence - in practice this means acting with a higher level of care than you do with your own finances and affairs

Having procedures in place to protect all **charity resources** and to act in a way that does not put any assets at risk

Charity resources = bank accounts, credit/debit cards, online fundraising platforms, cash, investments, equipment, property, staff & volunteers, reputation...

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Safeguarding charity resources

In practice this means implementing **financial controls**; clear and robust policies and procedures which protect assets and aim to identify and **manage risk** of theft, fraud, loss and conflict of interest

Failing to implement and apply financial controls will be treated as **misconduct**, unless can demonstrate a trustee has acted reasonable and honestly

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Financial Controls – some examples

Controls over bank accounts and cash – risks: not fit for purpose, unauthorised access

- Reputable bank – financial services compensation scheme
- Sufficient for needs – dual authorisation, online banking
- How many accounts – do not need a separate account for each ‘fund’ – but may want a savings account with interest or if have regular balances over £120k (from Dec 25) split over two different institutions to protect
- Who are signatories – add new and remove old signatories on a timely basis – keep bank mandate up to date
- Who has access (should not share log-ins)
- Policy for putting banking apps on phones
- Who has access to credit/debit cards and cheque books
- Petty cash – limits and how held securely

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Financial Controls – some examples

Controls over purchases and payments – risks: not in line with charitable objects, spending restricted funds incorrectly, not value for money, conflicts

- Who has the authority to make a purchase
- Any related party issues to consider
- Obtain quotes for a significant purchases or services (cheapest not always the best!)
- Payment approvals before committing to the purchase (set amounts?)
- How deal with online purchasing
- Dual authorisation at time of payment transaction
- Review of bank statements and transactions by Trustees
- Petty cash payments – more than one person to count and check transactions

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Financial Controls – some examples

Controls over receipts of money – risks: the charity does not receive all the funding it is due, misappropriation of funds, unauthorised use of charity name

- Are bank details given out correctly, accurate links
- Receipt and / or Thank-you letters sent out by someone other than the person recording the receipt in the books
- Gift aid documentation collected and retained
- Review of bank statements and transactions by Trustees
- Petty cash receipts – more than one person to count and check transactions

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Financial Controls – some examples

Controls over recording transactions – risks: the charity does not reflect its financial position correctly

- Adopt a robust system for recording day to day transactions on a timely basis using a spreadsheet or software
- Allocate transaction to correct restricted fund if appropriate
- Record transaction in full – date, gross amount, who, what, why
- Obtain and retain supporting documentation for each transaction
- Review of records – reconciliation to bank at least monthly (ie bank in accounting records = bank balance on statement at month end)
- Use of management accounts and budgeting as a control – comparison to actual and follow up of variances

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Financial Controls – some examples

Controls over other assets – risks: misuse or loss of charity assets, reputational risk

- Property and equipment – is fixed asset register up to date
- Who holds or has access to charity assets – are they secure
- Policy over unauthorised use
- Insurance
- Repair and maintenance policy
- Investment policy in place, do you have a reputable fund manager
- Back up of financial data
- Cyber security controls – virus, phishing, impersonation fraud

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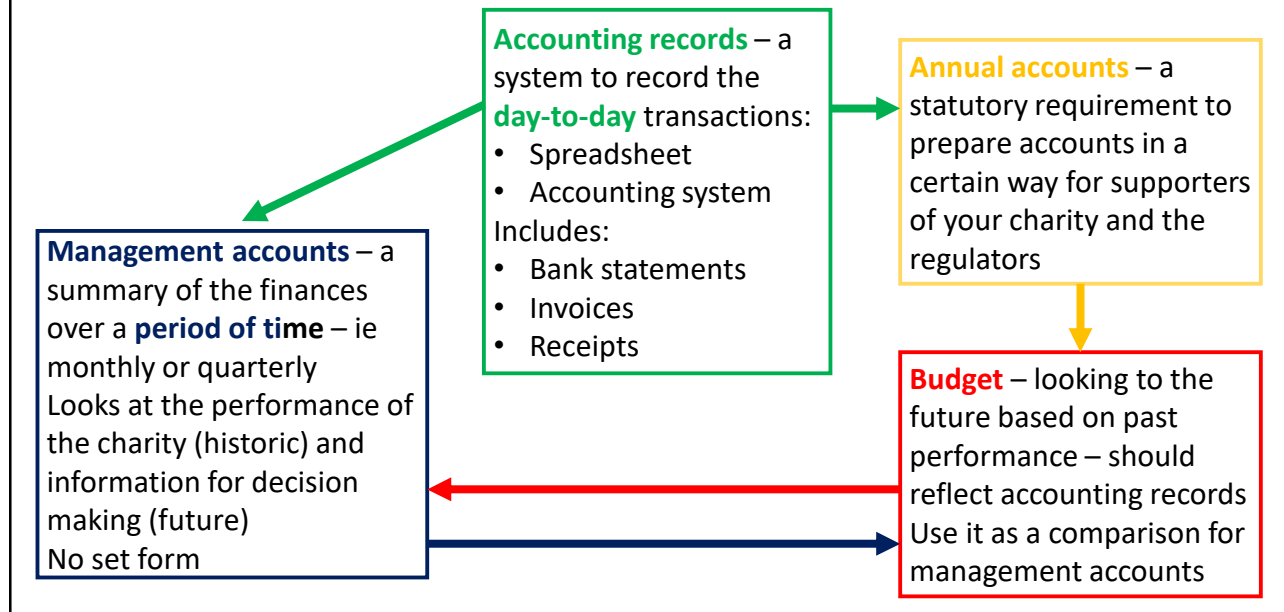
Any other examples or
questions?

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Question 2:
Why do we need management
accounts and what should we
include in them?

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Accounting records and accounts



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What are management accounts

May be called a 'treasurer's report', 'finance report', 'financial update'

Summary from the day-to-day financial records of the actual results

Presented in a way that enables the trustees to understand the financial position of the charity

Forms the financial information required for decision making

Forms a financial control when comparing actual results to budget

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How much detail?

Subjective...it depends on size and complexity of the organisation

Too much detail...overwhelming to the reader, they may not see the main points, or just not read it

Too little detail...the reader may not be receiving a true picture to act in the best interests of the charity

Management accounts have no value if the information in them is not meaningful in some way

The information presented must be understood by the reader...**ASK FELLOW TRUSTEES WHAT WORKS**

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Good practice for management accounts

- Timely – monthly / quarterly – be consistent and relevant to the meeting date
- Cumulative or month by month?
- Verbal reports are not sufficient for decision making – prepare a written report and send out in advance so trustees have information to ask questions
- Use narrative as well as the numbers – not everyone understands a table of numbers
- Use colour, charts and graphs, highlight the important points in some way
- It should cover restricted and unrestricted funds where applicable
- Include cash flow analysis or reserves information where financial concerns
- Compare to budget and investigate why something is higher or lower than expected
- Encourage your fellow trustees to ask questions and challenge!

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Example:

One idea of how to set out some management accounts

1. Start with a financial table as a summary
2. Explain the main figures in words – what has happened in the month or quarter, financially speaking
3. What does this mean for where we are now, the future and actions or decisions
4. Set out some analysis that will be useful for the reader – tables, numbers, graphs, key indicators
5. Provide the detail

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Example:

Start with an overview of the figures in summary form

Could include a budget and variance column

25-26 Q1 April 25 - June 25

	Actual results Q1: 3 months to 31 March 2025				
	Fund 1	Fund 2	Fund 3	Core	Total
	£	£	£	£	£
Grants					-
Other grants & donations					-
Rental income					-
Total income	-	-	-	-	-
Salaries					-
Building running costs					-
Other costs					-
Total expenditure	-	-	-	-	-
Net result	-	-	-	-	-
Reallocations	-	-	-	-	-
Opening funds	-	-	-	-	-
Closing funds	-	-	-	-	-

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25-26 Q1 April 25 - June 25

	Actual results Q1: 3 months to 31 March 2025					Q1 Budget £	Variance £	Annual Budget £
	Fund 1 £	Fund 2 £	Fund 3 £	Core £	Total £			
Grants					-		-	
Other grants & donations					-		-	
Rental income					-		-	
Total income	-	-	-	-	-	-	-	-
Salaries					-		-	
Building running costs					-		-	
Other costs					-		-	
Total expenditure	-	-	-	-	-	-	-	-
Net result	-	-	-	-	-	-	-	-
Reallocations	-	-	-	-	-			
Opening funds	-	-	-	-	-	-	-	-
Closing funds	-	-	-	-	-	-	-	-

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Example:

Follow with a narrative section to explain the figures

Comments on income:

- **Large Grants** are as expected/ lower / higher etc. Narrative to explain
- **Other grants and donations** are as expected/ lower / higher etc. Narrative to explain
- **Generated income** are as expected/ lower / higher etc. Narrative to explain

Comments on expenditure:

- **Salaries** are as expected/ lower / higher etc. Narrative to explain
- **Building running costs** are as expected/ lower / higher etc. Narrative to explain
- **Other costs** are as expected/ lower / higher etc. Narrative to explain

[idea is to explain the figures in a few sentences – how they compare to budget, reasons etc – tailor the categories to what works for the charity]

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Example:

What does this mean...have a narrative section to explain overall result, funds position and set out information for decision making

Overall result and funds:

- **Current position** – where do the actual results stand against the budget or where we need to be
- **What does this mean** – can we carry on as we are
- **What actions are needed** – do we need to raise more money, when, do we need to change what we are doing

Highlight any information **relevant to decisions** that might need to taken:

- **Funding shortfalls** – are there any gaps to fill
- **Cost of new equipment** – where will the funding come from
- **Grant timeline** – when will grants run out, when apply

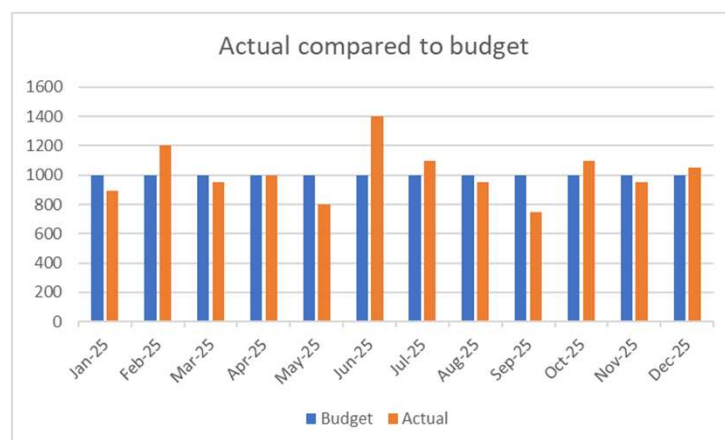
Forecast position going forward – can we predict forward to the end of the year, how will the reserves look, what action should be taken

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Example:

Can use charts or graphs to visually explain the figures

Bar charts are useful for comparisons

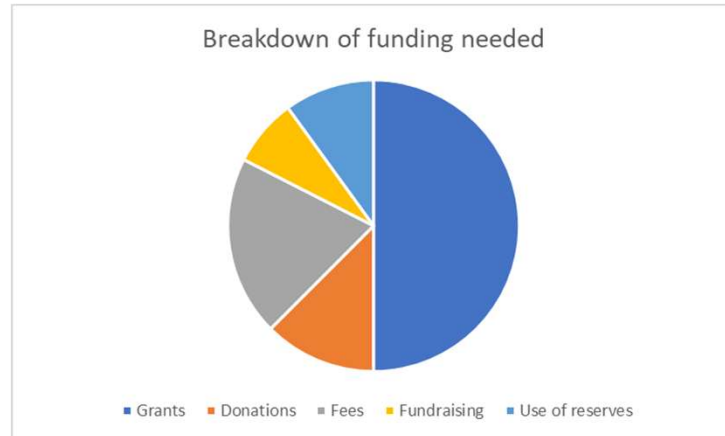


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Example:

Can use charts or graphs to visually explain the figures

Pie charts are useful to look at the breakdown of a whole

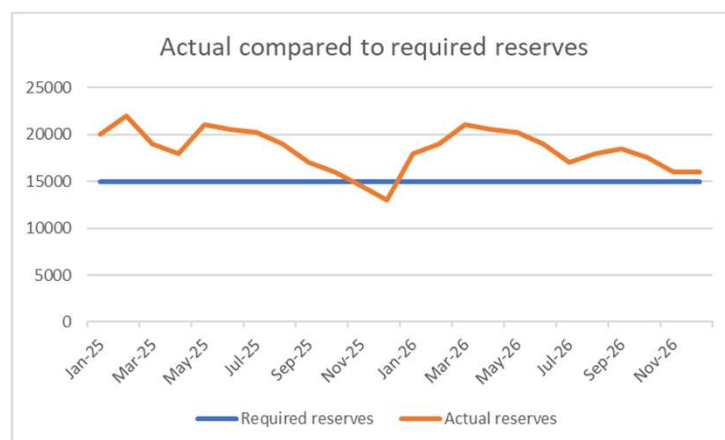


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Example:

Can use charts or graphs to visually explain the figures

Line graphs can look at trends over time



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Example:

The detail – it is important

Add detailed finance reports at the end – they are there for more information and control purposes but are at the back, they don't scare the non-finance people straight away!

- Analysis by restricted funds
- Detailed income and expenditure reports
- Comparisons to budget
- Breakdown of categories if want to explain what is in administration costs for example
- Other ...

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Any other examples or questions?

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Question 3: Financial planning – how do we develop a budget and how we should use it?

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<p>Strategic planning</p> <ul style="list-style-type: none"> <input type="checkbox"/> Longer term 3-5 years <input type="checkbox"/> Expected activity costs <input type="checkbox"/> Identify funding needed <input type="checkbox"/> Aims going forward 	<p>Budgets</p> <ul style="list-style-type: none"> <input type="checkbox"/> 12 months <input type="checkbox"/> More detail <input type="checkbox"/> Use to monitor actual performance 	<p>Financial planning tools</p>
<p>Cash flow</p> <ul style="list-style-type: none"> <input type="checkbox"/> Timing of actual receipts and payments of cash <input type="checkbox"/> Ensure can meet all obligations when due 	<p>Forecasts</p> <ul style="list-style-type: none"> <input type="checkbox"/> Mixture of actuals and revised budget figures <input type="checkbox"/> More up to date/ accurate than a budget 	
<p>Scenario planning</p> <ul style="list-style-type: none"> <input type="checkbox"/> What if? <input type="checkbox"/> How can we adapt? <input type="checkbox"/> Identify trigger points for difficult decisions 	<p>Crisis Planning</p> <ul style="list-style-type: none"> <input type="checkbox"/> Viability concerns <input type="checkbox"/> Rolling 12-week cash flows <input type="checkbox"/> Monitor daily 	

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Cost based budgeting

Being aware of cost base to carry out the work or project the organisation wants to deliver

Costs are streamlined where possible (eg 5% VAT on utilities)

Cutting down on unnecessary expenditure – take care worthwhile expenditure could reduce the charity's effectiveness

Inform funding applications

All projects should be fully costed when applying for funding – if funding does not cover it – how will the balance be met

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Building a budget...how to overcome the barriers

It is overwhelming – it can be a big project so plan a budget period that fits with year-end / funding timetables – involve others

Its all numbers and I don't like them – It's not all about the numbers think in terms of the services and activities you plan to run

Where do I start? – Break it down into manageable sections and take each in turn

What if I don't get it right? – It's not about being right – you can't predict the future – its an estimate

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Building a budget – four stages

Stage 1
Defining
Assumptions

Stage 2
Quantifying
Assumptions

Stage 3
Creation of
the budget

Stage 4
Scenario
planning

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Budgeting: Defining Assumptions

What do you want to deliver:

Services, projects, activities – be specific

Core activities – the supporting work, resources for all the charity's activities

What resources will we need:

Staffing – roles and hours

Volunteers

Venues

Communications

Consumables

Training

Insurance

Administration

Whole team can help...not just treasurer!

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Budgeting: Quantifying Assumptions

Assigning costs to all the assumptions:

- **Evidence** – where possible use known costs from prior year, potentially with a % increase
- **Intelligence gathering** – for new costs or those that may have significantly changed, look at benchmarking, obtain quotes
- **Best guess** – if all else fails, what is it likely to cost
- And for full cost recovery purposes – **allocation rates** – for example defining the % of core staff time across the different activities

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Budgeting: Creation

The assumptions and likely costs can be brought together to provide overall costs in:

- Software package – may not be flexible enough for charity needs
- Spreadsheet – flexible and easy to amend – simple structure or complex model. Once a model is produced it can be used each year

There is no right or wrong way

Normally 12 months

Can produce for a year or monthly

Note: budgets are estimates only – best guess – translating your plans into monetary terms, what it will cost and where and when will the money come from.

As an example...

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Example of budget

	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26	Oct-26	Nov-26	Dec-26	Total Agreed Budget 2026
COST BUDGET													
Staff costs	£ 2,500	£ 2,500	£ 2,500	£ 2,500	£ 2,500	£ 2,500	£ 2,500	£ 2,500	£ 2,500	£ 2,500	£ 2,500	£ 2,500	£ 30,000
Activities	£ 6,500	£ 200	£ 6,500	£ 6,500	£ 6,500	£ 200	£ 500	£ 3,000	£ 3,000	£ 200	£ 500	£ 1,200	£ 34,800
Venue hire	£ 500	£ 500	£ 500	£ 500	£ 500	£ 500	£ 500	£ 500	£ 500	£ 500	£ 500	£ 500	£ 6,000
Volunteer programme	£ 600	£ 600	£ 600	£ 600	£ 600	£ 600	£ 600	£ 600	£ 600	£ 600	£ 600	£ 600	£ 7,200
Insurance, memberships	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167	£ 2,000
HR - training, travel & recruitment	£ 300	£ 300	£ 300	£ 300	£ 300	£ 300	£ 300	£ 300	£ 300	£ 300	£ 300	£ 300	£ 3,600
Office - IT, communications	£ 300	£ 300	£ 300	£ 300	£ 300	£ 300	£ 300	£ 300	£ 300	£ 300	£ 300	£ 300	£ 3,600
Funding & promoting the charity	£ 250	£ 250	£ 250	£ 250	£ 250	£ 250	£ 250	£ 250	£ 250	£ 250	£ 250	£ 250	£ 3,000
Governance	£ 100	£ 100	£ 100	£ 100	£ 100	£ 100	£ 100	£ 100	£ 100	£ 100	£ 100	£ 100	£ 1,200
	£ 11,217	£ 4,917	£ 11,217	£ 11,217	£ 11,217	£ 4,917	£ 5,217	£ 7,717	£ 7,717	£ 4,917	£ 5,217	£ 5,917	£ 91,400
FUNDING BUDGET													
Grants in	£ 10,000	£ -	£ 15,000	£ -	£ -	£ -	£ 25,000	£ -	£ 10,000	£ -	£ -	£ -	£ 60,000
Fees & similar	£ 1,300	£ 40	£ 1,300	£ 1,300	£ 1,300	£ 40	£ 100	£ 600	£ 600	£ 40	£ 100	£ 240	£ 6,960
Fundraising & donations	£ 1,000	£ 1,000	£ 1,000	£ 1,000	£ 1,000	£ 1,000	£ 1,000	£ 1,000	£ 1,000	£ 1,000	£ 1,000	£ 1,000	£ 12,000
	£ 12,300	£ 1,040	£ 17,300	£ 2,300	£ 2,300	£ 1,040	£ 26,100	£ 1,600	£ 11,600	£ 1,040	£ 1,100	£ 1,240	£ 78,960
Opening reserves to use	£ 40,000												
Closing reserves	£ 41,083	£ 37,207	£ 43,290	£ 34,373	£ 25,457	£ 21,580	£ 42,463	£ 36,347	£ 40,230	£ 36,353	£ 32,237	£ 27,560	

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Budgeting: Uses of a budget

- Can be used to look at different scenarios – if funding not received, if want to expand a service, or stop an activity – can tweak the budget to see different results
- Forms the basis of funding applications
- Highlights when more funding needs to be raised
- Provides a monitoring tool to compare with actual results = financial control
- Investigate where actual is different to budget
- Can look forward more than 12 months to see longer term outlook – note the further forward you look, the more uncertain the figures
- Use a mixture of actuals, knowns and budget to look forward – produce a forecast

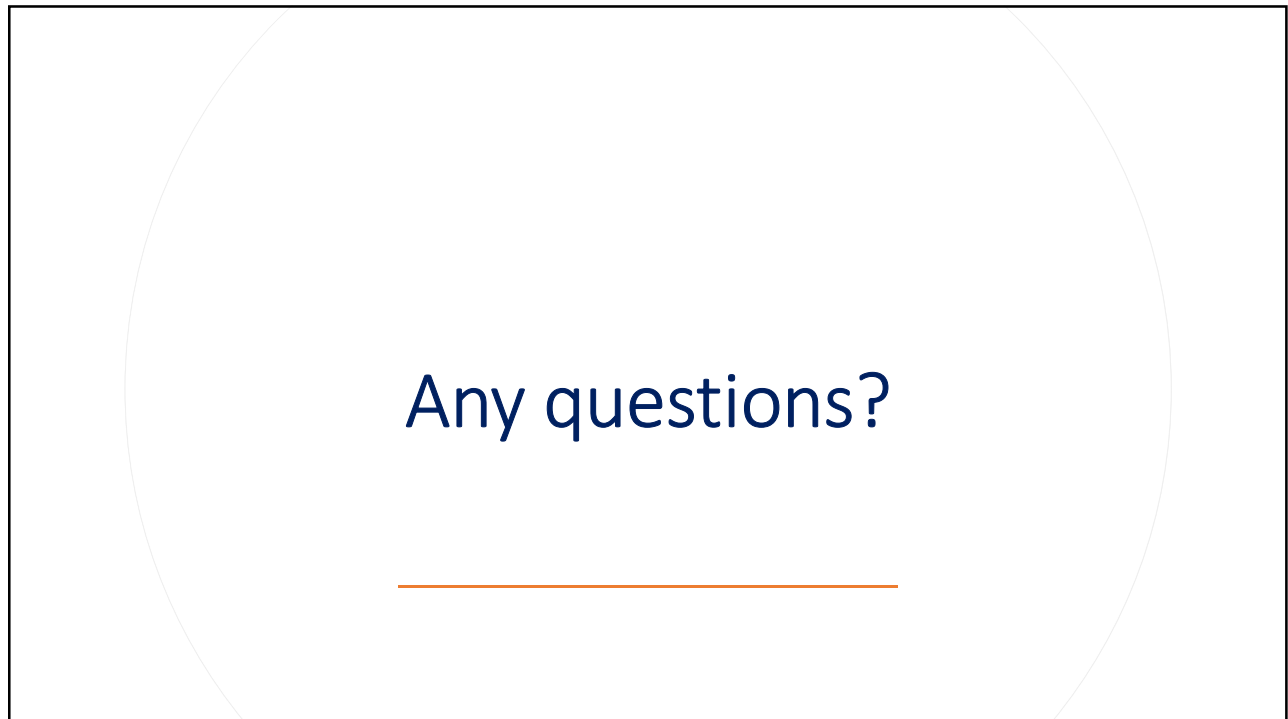
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Example of a forecast

COST BUDGET	Total Agreed Budget 2026	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26	Oct-26	Nov-26	Dec-26	REVISED FORECAST 2026	OVER/ UNDER
		ACTUAL	ACTUAL	ACTUAL	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	
Staff costs	£ 30,000	£ 2,350	£ 2,350	£ 2,350	£ 2,500	£ 2,500	£ 2,500	£ 2,500	£ 2,500	£ 2,500	£ 2,500	£ 2,500	£ 2,500	£ 29,550	£ 450
Activities	£ 34,800	£ 3,500	£ 3,000	£ 700	£ 7,000	£ 2,000	£ 200	£ 500	£ 3,000	£ 3,000	£ 200	£ 500	£ 1,200	£ 24,800	£ 10,000
Venue hire	£ 6,000	£ 450	£ 450	£ 450	£ 450	£ 450	£ 450	£ 450	£ 450	£ 450	£ 450	£ 450	£ 450	£ 5,400	£ 600
Volunteer programme	£ 7,200	£ 800	£ 300	£ 1,000	£ 200	£ 200	£ 600	£ 600	£ 600	£ 600	£ 600	£ 600	£ 600	£ 6,700	£ 500
Insurance, memberships	£ 2,000	£ 100	£ -	£ 1,800	£ -	£ -	£ -	£ -	£ -	£ -	£ 100	£ -	£ -	£ 2,000	£ -
HR - training, travel & recruitment	£ 3,600	£ 150	£ 150	£ 200	£ 250	£ 250	£ 250	£ 250	£ 250	£ 250	£ 250	£ 250	£ 250	£ 2,750	£ 850
Office - IT, communications	£ 3,600	£ 170	£ 600	£ 1,150	£ 187	£ 187	£ 187	£ 187	£ 187	£ 187	£ 187	£ 187	£ 187	£ 3,600	£ -
Funding & promoting the charity	£ 3,000	£ 200	£ 175	£ 300	£ 258	£ 325	£ 325	£ 325	£ 325	£ 325	£ 325	£ 325	£ 325	£ 3,533	-£ 533
Governance	£ 1,200	£ 100	£ -	£ -	£ 122	£ 389	£ 389	£ 389	£ 389	£ 389	£ 389	£ 389	£ 389	£ 3,333	-£ 2,133
Total	£ 91,400	£ 7,820	£ 7,025	£ 7,950	£ 10,967	£ 6,301	£ 4,901	£ 5,201	£ 7,701	£ 7,701	£ 5,001	£ 5,201	£ 5,901	£ 81,667	£ 9,733
FUNDING															
Grants in		£ -	£ -	£ 15,000	£ -	£ -	£ -	£ 25,000	£ -	£ 10,000	£ -	£ -	£ 10,000	£ 60,000	
Fees & similar		£ 470	£ 470	£ 470	£ 500	£ 500	£ 500	£ 500	£ 500	£ 500	£ 500	£ 500	£ 500	£ 5,910	
Fundraising & donations		£ 1,500	£ -	£ -	£ 1,167	£ 1,167	£ 1,167	£ 1,167	£ 1,167	£ 1,167	£ 1,167	£ 1,167	£ 1,167	£ 12,000	
Total		£ 1,970	£ 470	£ 15,470	£ 1,667	£ 1,667	£ 1,667	£ 26,667	£ 1,667	£ 11,667	£ 1,667	£ 1,667	£ 11,667	£ 77,910	
Opening reserves to use		£ 40,000													
Closing reserves		£ 34,150	£ 27,595	£ 35,115	£ 25,814	£ 21,181	£ 17,947	£ 39,413	£ 33,379	£ 37,345	£ 34,011	£ 30,477	£ 36,243		

As the year goes on, we have more idea of the finances. We don't want to change our original budget, but we can look at a FORECAST. We can update the months that have happened with actual results and amend future months where we know with more accuracy when funding will be received, or costs spent.

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Further Guidance

Regulation such as Charities and Trustee Investment (Scotland) Act 2005 and Charities Accounts (Scotland) Regulations 2006 – see www.legislation.gov.uk

Guidance for Trustees from the Regulator – see www.oscr.org.uk

Scottish Council for Voluntary Organisations
www.scvo.org.uk

Book available from Directory of Social Change website
www.dsc.org.uk/ctr

Local third sector interface
<https://www.thirdsectorpk.org.uk>

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