

**WEST MIDLANDS  
MUSEUM  
DEVELOPMENT**  
DELIVERED BY  
**Ironbridge**  
BIRTHPLACE OF INDUSTRY  
SUPPORTED BY  
ARTS COUNCIL ENGLAND  
Supported using public funding by  
**ARTS COUNCIL  
ENGLAND**

**Financial Awareness**  
Richard Hemmings

Insight  
Training  
finance made simple

Thinking emoji

Magician character

Number cloud

25 January 2018

**Congratulations! You've won some money but you have to use it to support a charity.  
You've narrowed it down to 3 charities for which you are equally supportive of their charitable purpose.**



**1. What other factors would you consider in deciding which charity to support?**



**2. What information would help you make your decision?**

1. Factor you would consider	2. Information sources

## TYPES OF FINANCIAL INFORMATION

Financial information can be categorised in a variety of ways – A good starting point to understanding what information means is to understand who it's for and how it was produced

1. External users vs Internal users
2. Forward looking or historic

Consider which categories common examples of financial information fall under

	External users	Internal users
Historic		
Forward looking		

Consider the pros and cons associated with these characteristics of financial information

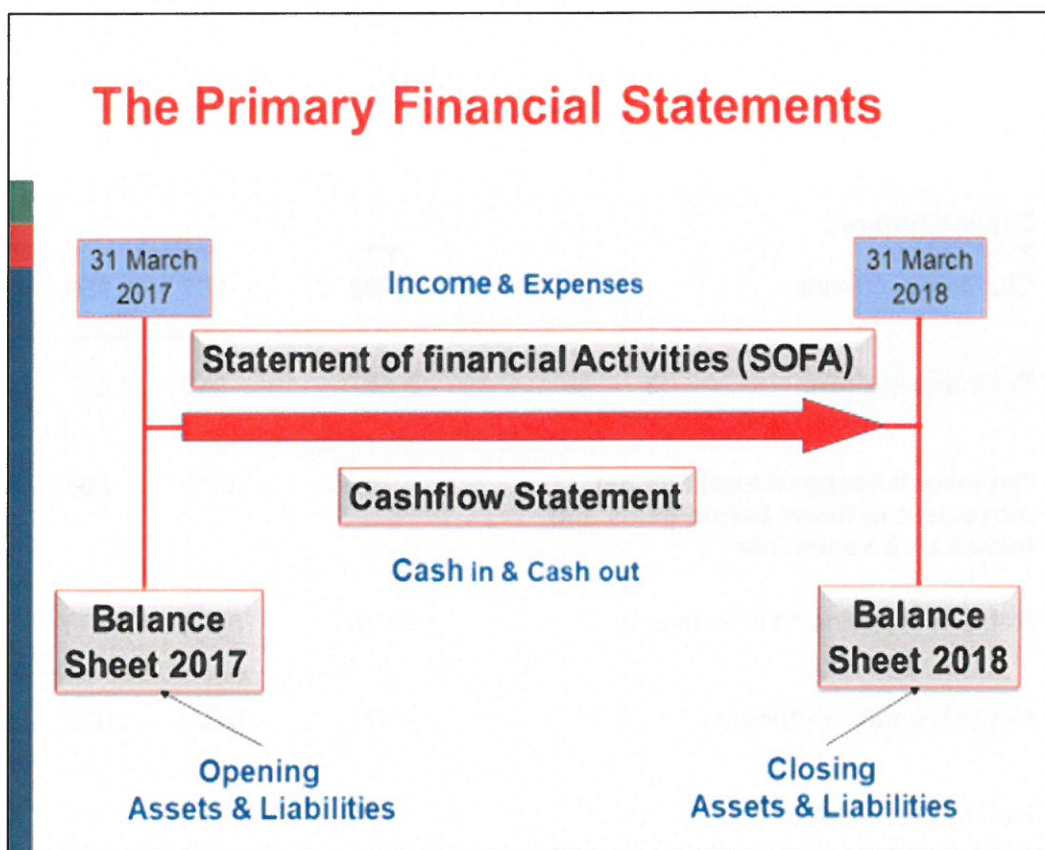
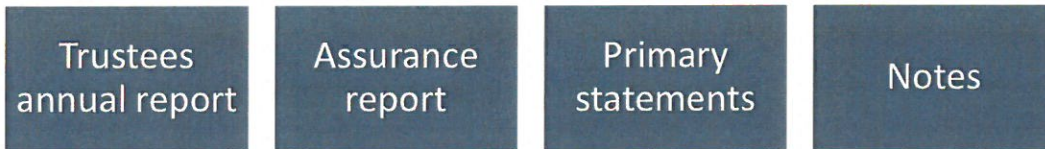
	Pros	Cons
External		
Internal		
Historic		
Forward looking		

## CHARITY FINANCIAL STATEMENTS

Who uses a charities financial statements?

Why do charities have to prepare accounts?

## KEY COMPONENTS OF FINANCIAL STATEMENTS



## STATEMENT OF FINANCIAL ACTIVITIES

**Year ended 31 December 2017**

	Note	Unrestricted Funds £'000	Restricted Funds £'000	Total 2017 £'000	Total 2016 £'000
<b>Income and endowments from:</b>					
Donations and legacies		2,731	5	2,736	3,274
Charitable activities		1	-	1	1
Other trading activities		84	-	84	119
Investments		1,634	326	1,960	1,662
<b>Total income</b>	2	4,450	331	4,781	5,056
<b>Expenditure on:</b>					
Raising funds		578	43	621	588
Charitable activities		3,089	867	3,956	3,719
<b>Total expenditure</b>	3	3,667	910	4,577	4,307
<b>Net income/(expenditure) and net movement in funds before gains and losses on investments</b>		783	(579)	204	749
Net (losses)/gains on investments		(310)	(57)	(367)	1,267
<b>Net (expenditure)/income</b>		473	(636)	(163)	2,016
<b>Net movement in funds</b>		473	(636)	(163)	2,016
Fund balance brought forward at 1 Jan 2017		54,754	9,661	64,415	62,399
<b>Total funds carried forward at 31 Dec 2017</b>	13	55,227	9,025	64,252	64,415

## BALANCE SHEET

As at 31 December 2017

	<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
<b>Fixed assets</b> Tangible assets	2,511	2,504
Investments	59,517	59,011
Social investments	298	292
<b>Total Fixed Assets</b>	<b>62,326</b>	<b>61,807</b>
<b>Current assets</b>		
Stocks	4	2
Debtors: due within one year	1,027	1,686
Cash at bank and in hand	1,335	1,268
<b>Total Current Assets</b>	<b>2,366</b>	<b>2,956</b>
<b>Liabilities</b>		
Creditors: amounts falling due within one year	(412)	(326)
<b>Net current assets</b>	<b>1,954</b>	<b>2,630</b>
<b>Total assets less current liabilities</b>	<b>64,280</b>	<b>64,437</b>
Creditors: amounts falling due after more than one year	(28)	(22)
<b>Total net assets</b>	<b>64,252</b>	<b>64,415</b>
<b>The funds of the charity:</b>		
Restricted funds	9,025	9,661
Unrestricted funds:		
Designated funds	2,511	2,504
General funds	52,716	52,250
<b>Total unrestricted funds</b>	<b>55,227</b>	<b>54,754</b>
<b>Total charity funds</b>	<b>64,252</b>	<b>64,415</b>

## INCOME RECOGNITION

### Income recognition

You've been awarded a grant!

When does that money count as 'income' (ie recognised in SOFA)?

When it's awarded?

When you receive it in the bank?

Matched against the associated expenditure or depreciation?





## INCOME RECOGNITION CRITERIA

### 1. Entitlement

- A legally enforceable right
- Any conditions are within the charity's control

### 2. Probability

- Probable that the amount will be received

### 3. Measurement

- The amount can be measured reliably

*'Grants don't exist! They are either contractual/trading arrangements or gifts'*

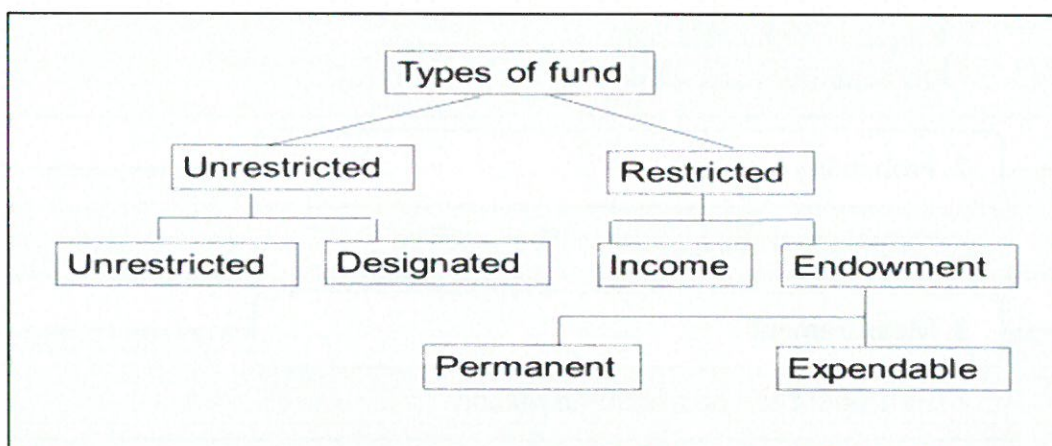
Source: Don Bawtree (BDO) - ICAEW webinar 'Charities: Audit Challenges'

### West Midlands Museum Development - Ready to Borrow Small Scale Capital Grant Scheme (Extract from full application guidance)

<p>How will the money be paid?</p>	<ul style="list-style-type: none"> <li>• 75% of the grant will be paid by cheque when projects commence on 21 June 2017, subject to signed acceptance of the offer terms and conditions</li> <li>• The remaining 25% will be paid by 10 January 2018 or at an earlier agreed date <b>subject to completed reports.</b></li> </ul>
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## RESERVES & FUND ACCOUNTING

Fund accounting is a key concept in charity accounts. The different types of funds are presented in columnar format in the accounts and provide useful information to users on how the charity is meeting its objectives, how it funds specific expenditure and why.



<b>Unrestricted</b>	Also referred to as 'General' fund, unrestricted income can be used to fund any expenditure that furthers the charitable purpose.
<b>Designated</b>	Designated funds are unrestricted. However, the charity has earmarked them for specific purposes. The difference between designated and restricted funds is that for designated funds, the requirement to use for a specific purpose is internally imposed, while for restricted funds it is externally imposed.
<b>Restricted</b>	<p>Income is assigned to restricted funds when its use has been restricted by either</p> <ul style="list-style-type: none"> <li>• The donor specified it as a condition of the donation</li> <li>• A legal restriction</li> <li>• The fund raising activity was based on the funds raised being used for a specific purpose</li> </ul> <p>Where the restriction ceases, either because the specific objective has been achieved or some other reason, any remaining fund can be transferred to unrestricted funds.</p>
<b>Permanent Endowment</b>	A type of restricted fund which comprises a restricted capital asset/fund held in trust, usually for generating future income for the charity e.g. through interest, rental income or dividends.
<b>Expendable Endowment</b>	An expendable endowment fund is a fund that must be invested to produce income. Depending on the conditions attached to the endowment, the trustees will have a legal power to convert all or part of it into an income fund which can then be spent.

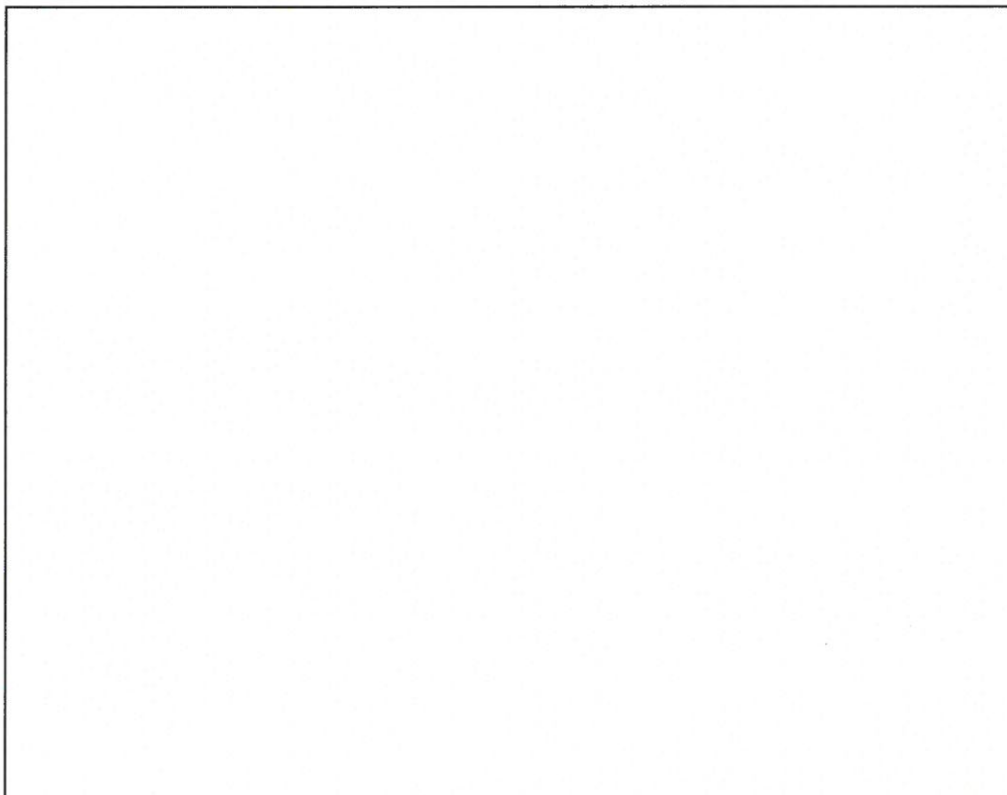
## RESERVES POLICY

### All charities

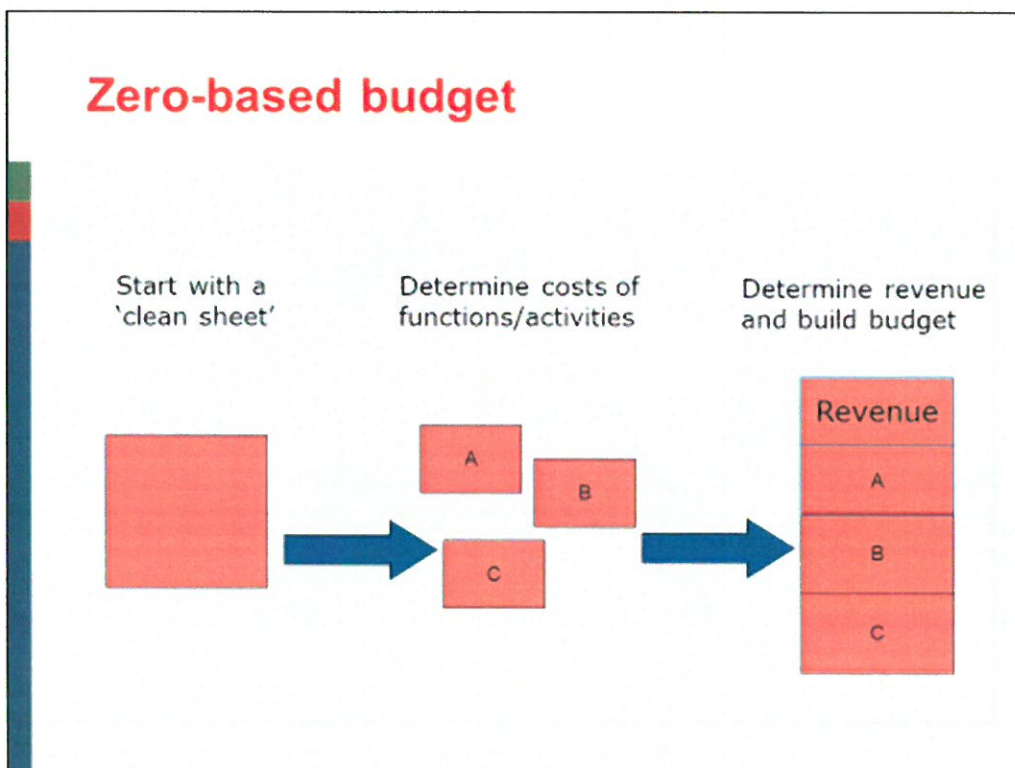
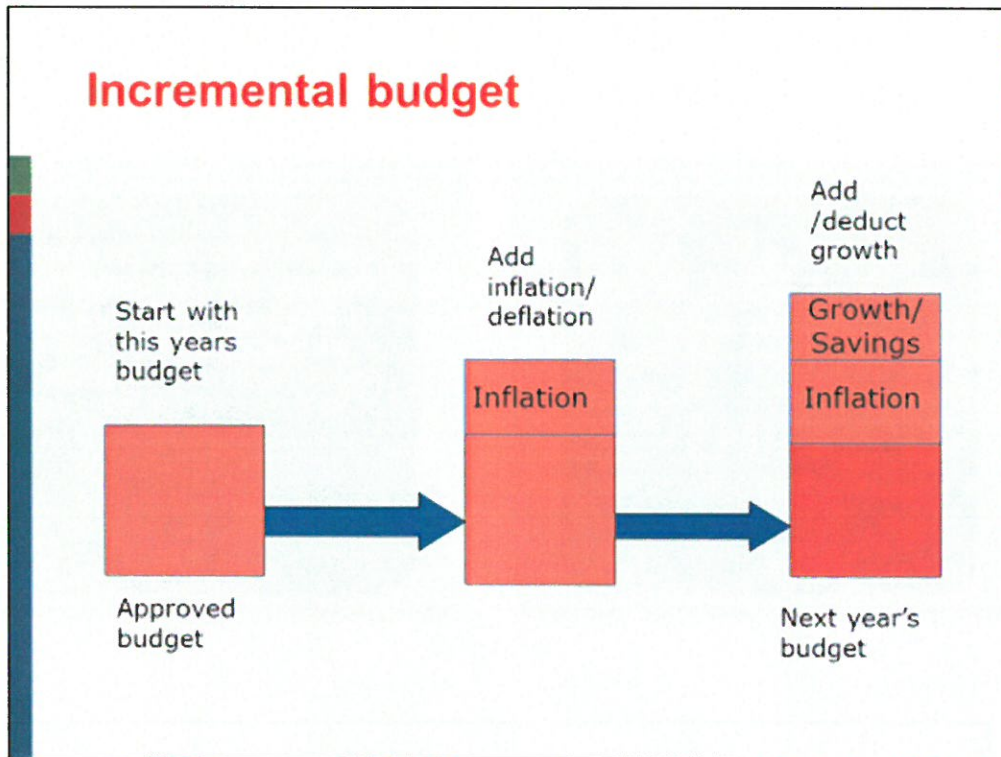
“The charity must explain any policy it has for holding reserves and state the amounts of those reserves and why they are held. If the trustees have decided that holding reserves is unnecessary, the report must disclose this fact and provide the reasons behind this decision.”

### Larger charities

“The review of the charity’s reserves should compare the amount of reserves with the charity’s reserves policy and explain, where relevant, what steps it is taking to bring the amount of reserves it holds into line with the level of reserves identified by the trustees as appropriate given their plans for the future activities of the charity”.



## BUDGETS AND PROJECT COSTING



## Budgeting methods

	Incremental	Zero based
<b>Pros</b>	<ul style="list-style-type: none"> <li>Simple</li> <li>Inexpensive</li> </ul>	<ul style="list-style-type: none"> <li>Links strategy &amp; budgeting</li> <li>Highly participative</li> <li>Radical review</li> <li>Identifies options &amp; sets priorities</li> </ul>
<b>Cons</b>	<ul style="list-style-type: none"> <li>Resource allocation not clearly linked to objectives</li> <li>Priorities between services are not defined</li> <li>Perpetuates past inefficiencies</li> </ul>	<ul style="list-style-type: none"> <li>Costly</li> <li>Takes time</li> <li>Requires support</li> </ul>

Budgeting/Costing challenges	Solutions

## Output VAT on income

If VAT registered you must charge VAT on your 'taxable supplies'

Knowing the correct rate can be complex!!!

Standard rate - 20%

- Most goods

Zero rate – 0%

- Most food, children's clothes & charity sale of donated goods

Reduced rate – 5%

- Children's car seats and home energy

Exempt

- Train tickets, charity fundraising events & Museum entrance fees

Rule of thumb for budgeting/forecasting etc:

- Don't include any VAT on income as you will only have to pass it on to HMRC

## Input VAT on purchases

Charged to you by suppliers only if THEY are registered

Reclaimed by you if YOU are registered

### Budgeting implications

If registered:

- Exclude VAT element from costs/quotes (ie. net)
- You will reclaim this so not a 'cost'

If not registered:

- Include VAT element from costs/quotes (ie. gross)
- This is an unrecoverable cost

## YOUR 2018 BUDGET

You are putting together a budget for a museum for 2018.

Consider the following expenses.

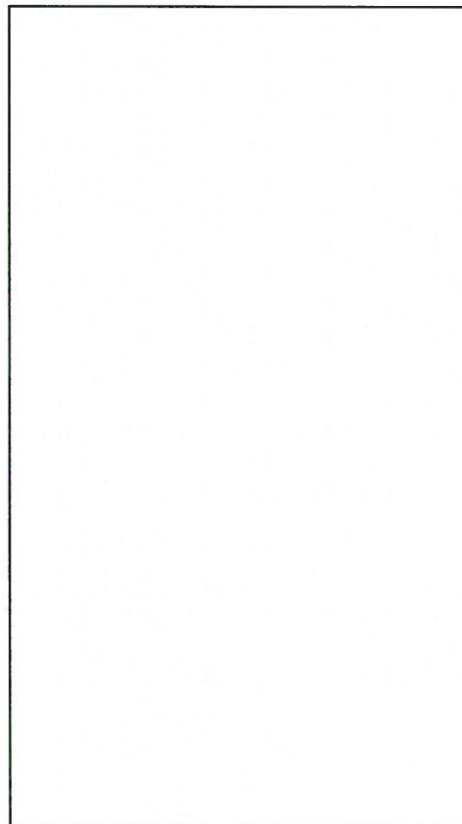
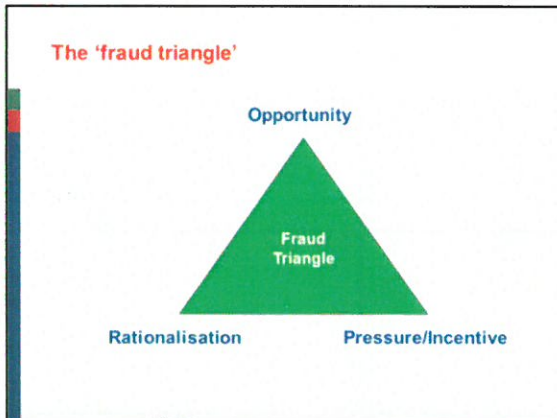
What information would you need and what assumptions would you need to make in order to budget for each of these items?

<b>Expense</b>	<b>Information needed?</b>	<b>Assumptions made?</b>
<b>Staff Costs:</b>  Permanent staff  Temporary staff		
<b>Rent and rates/bills</b>		
<b>Refurbishment of particular area of the museum</b>		
<b>General Training</b>		
<b>Audit Fee</b>		
<b>Income from visitors</b>		

## RISK MANAGEMENT AND CONTROLS

### INCREASED FRAUD RISK IN CHARITIES?

- Widespread branches or operations
- Use of volunteer or inexperienced staff
- Cash transactions
- Unpredictable patterns of giving
- Limited involvement of trustees in decision making
- Lack of control over grants made





## FINANCIAL CONTROLS

### Preventative Financial Controls

Training and awareness

Segregation of duties

Rotation of staff

Authorisation controls

Multiple signatories

Restriction of access – passwords

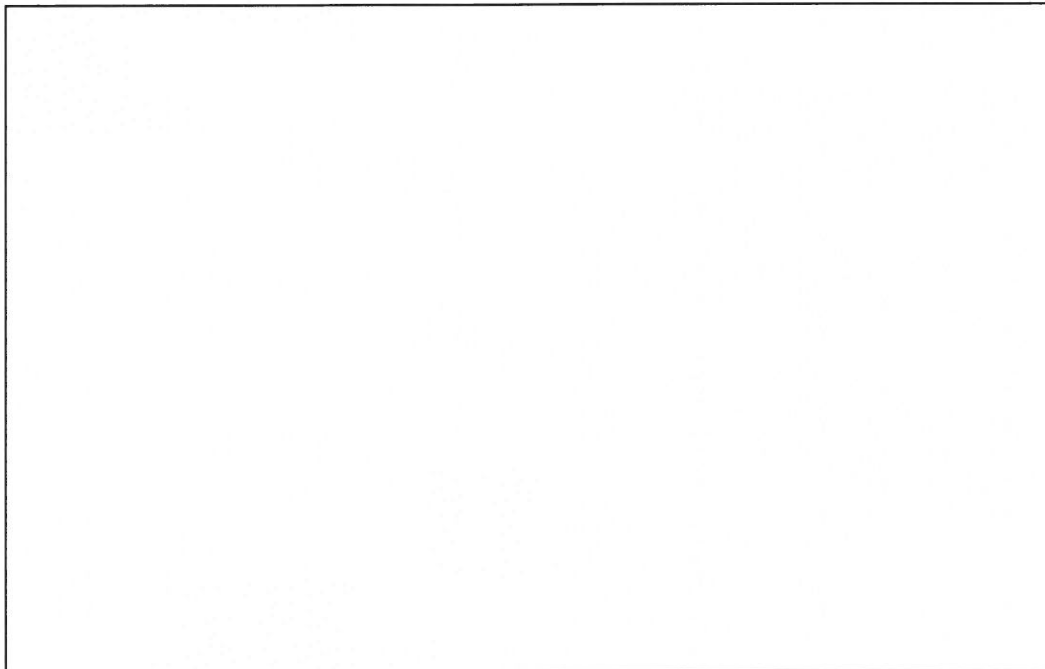
### Detective financial controls

Review of actual v  
budget/expectation v prior year

Arithmetical checks

Bank Reconciliations

Supplier statement  
Reconciliations



## FRAUD AND FINANCIAL CRIME

“Charities are heavily reliant on altruism, trust and honesty. They enjoy high levels of public trust and confidence, so appearing to be associated with a charity can give a criminal enterprise a veneer of respectability.

The reliance of some charities on cash-based fund raising can also make the sector attractive to both opportunist and organised fraudsters. And the ethos of charities, built on voluntarism and pursuit of a common and shared goal, may create a degree of trust amongst individuals and staff which allow the unscrupulous to operate with less suspicion.

There are various frauds to which charities are potentially vulnerable. Frauds can be identified either as internal (involving only people within the charity) or external (in which at least some element of the fraud is perpetrated outside the charity).”

Source – The Charities Commission

Consider the following scenarios:

Potential scenario	Preventative control	Detective control
Skimming money from charitable fundraising collections		
Fraudulent Gift Aid claim		
Claiming non-existent, over-inflated or inappropriate expenses or overtime		
Creating false invoices, purchase orders and supplier identities in order to obtain payment from the charity for goods and services that have not been supplied		
Submitting false applications from real or fictional individuals for grants or other charitable benefit or funding. In some cases individual employees may have authority to approve applications themselves		

**AUDIT AND INDEPENDENT EXAMINATION**

<b>Audit</b>	<b>Independent examination</b>
<p>Positive assurance opinion (eg. – The financial statements give a true and fair view)</p>	<p>Negative opinion (eg. There is nothing to suggest that the financial statements do not give a true and fair view)</p>
<p>Higher level of assurance (‘Reasonable assurance’)</p>	<p>Lower level of assurance (‘Limited assurance’)</p>
<p>Income &gt;£1m</p>	<p>Income £25k to £1m (&gt;£250k = ‘Qualified person’)</p>
<p>Performed under International Auditing Standards (ISAs)</p>	<p>Performed under Charity Commission Directions for Examiners (CC32)</p>

