

Managing Your Money

The Good Practice Guide

Chapter 1: The application process and offer of acceptance procedures

Aims of Section

- to outline the application process in relation to access to grant funding available from government departments and Independent Funding Bodies
- to describe the steps necessary in the preparation of an application for funding
- to review the 'Offer of Acceptance' and its implications for your organisation.

□ Accessing Funds

Clarify, Identify and Apply

(1) CLARIFY

Clarify Your Project

Be as clear and specific as possible about your proposed project. Identify the need you are seeking to address. Specify the aims, the objectives, methods and outcomes of your proposal from the very beginning. Don't assume the funder knows everything (or anything) about you or your work. If it is not in the application, they won't know.

(2) IDENTIFY

Identify and Research Funding Sources

Use a range of methods to identify and research funders that match your project. The more information you have on the potential funders, the better your application will be. Methods of research include funding directories, the internet, fundraising software, grants and fundraising professionals, networks and agencies, the media and of course the funder themselves.

Remember the different types of funders: trusts/foundations, Community Fund, European, awards, corporate, international, statutory and semi-statutory. Make sure you are working from the very latest guidelines and forms.

(3) APPLY

Apply to Specific Funders

Remember, every funder is different. You need to make sure you meet the funder's criteria, priority and eligibility before you make an application.

How You Apply

Request an application form and guidelines from the funder before applying. For written applications you can get guidelines on how to structure your letter.

You will need to prove how you meet the criteria for each funder you apply to. Avoid general appeals and mail merged letters. Honesty and openness are the best and only policies recommended.

Questions you might need to consider for different funders are:

Do you have charitable status? Are your purposes charitable? Do you have a constitution? Are you a local organisation? Are you a branch of a national network? Is your annual income above or below their threshold? Is your request within their grant-making range? Is the grant to replace statutory funding? Do you meet their criteria? Do they fund in your locality? When are applications considered? Are there any deadlines? Do you need matching funding etc?

When to Apply

Well in advance. Applications can take between two months to nine months or longer to get a decision. Don't leave it too late. Find out when the deadlines are and how long the process takes.

□ **Planning and Budgeting**

The planning process is important in establishing the premises, personnel, equipment and other resource requirements of the organisation as a whole or of a specific project. The costs associated with each of these should be quantified and profiled over the life of the project thereby producing the budget. This is a crucial first stage in the financial management of the project. It requires time and thought to the needs of the organisation and the beneficiaries. If the application is successful, you will be expected to run the project at the cost stated in the application. Overspends will not be funded.

It is important to make a clear distinction between capital expenditure, the actual purchase price of a building or piece of equipment, and revenue expenditure, the running costs necessary in maintaining a building or running a piece of equipment. It is important to recognise this distinction in that, unlike capital costs, revenue costs are incurred each year whereas a grant to purchase equipment is a one-off transaction where the running costs will need to be met from other sources.

All conceivable costs involved in a project should be included in the budget, including expenditure that may or may not arise. If it might arise, it should be included (or be replaced by another unforeseen item of expenditure). Also, the higher cost estimate of an element of expenditure, uplifted year on year for inflation, should be included - surpluses

are easier to live with than deficits. The characteristics of a successful budget, and a review of the steps that lead to its preparation, are outlined in Chapter 3.

Planning the Detail

When applying for grant funding, you will more than likely develop one or more project ideas. It is possible to combine similar project ideas into one overall project. The key to success, however, is in organising programmes in such a way that it does not become difficult to understand what the aims actually are.

When applying for grant funding, a form must be completed for each project. The following information must be provided as a minimum for each:

- the purpose of the project and what it is that you are trying to achieve. Project objectives should be specific, measurable, achievable and time-bound. You must include the number of beneficiaries you hope to reach and details of the targets in respect of outcomes, for example, number of trainees, attendance at events, jobs created and so on. At final claim stage you will be expected to report against these project objectives as stated in the application, so consideration of the criteria to be used to measure how successful you have been will be necessary
- how the project meets all of the criteria, aims and objectives relevant to the particular programme from which funds are sought. This involves details of the beneficiaries, identification of their particular needs, and how the project will meet those needs
- assurance that the funding is *additional*, that funding is there to support projects that would not otherwise have taken place. You will be asked, therefore, to demonstrate how the project is providing value for money. The following issues should be considered:
 - does the project simply increase existing service provision?
 - does the funding permit you to maintain an existing service which would otherwise be cut back due to lack of finance?
 - are new services to be provided and, if so, could existing resources not be redeployed to fund it?
- information on the relationship of the project to the needs of the beneficiaries identifying the need that exists and how the project intends to meet this need.

Raising money is an increasingly competitive business with the key being to avoid rejection on the grounds of an ill-prepared, inaccurate and/or incomplete application. Presentation is important so it may be useful to support formal applications with additional information, for example, a business plan and/or a covering letter, both of

which should relate your application to the intentions and philosophy of the funds being applied for.

❑ **Offer of Acceptance**

Having successfully obtained funding, a letter of offer will be issued by the funding body to the person within your group with the responsibility for managing the project and for authorising transactions throughout the project. It will indicate:

- agreement to the action plan
- the total amount of grant offered
- the project(s) to be funded and the amount awarded to each project
- the fund from which the grants are awarded.

The project promoter will be required to sign an acceptance section on the letter and, in doing so, agree to comply with the terms and conditions attached to the offer, including arrangements for the draw down of monies by the applicant. A general principle is that cash will not be issued to the project promoter in advance of need and only by special arrangement will funding bodies assist projects that cannot operate in arrears. A condition of this arrangement will be the inclusion of a date by which expenditure of any advance payment should be completed, along with an appropriate claw-back provision if the deadline is not achieved.

Variations of the following terms and conditions will be included in letters of offer:

- that the grant shall be used only for the intended purposes, as defined in the signed application
- that the funding body will withhold any or all of the payments, and/or require the project promoter to repay part or all of the grant, if there is material or substantial change in the scale, nature or timing of the project or if the grant is used for purposes other than those specified in the application
- the project promoter must declare all other sources of funding and any new sources which may arise
- no aspect of the project should be party political or perceived to be discriminatory on the grounds of religion, colour, race, gender or disability
- the project promoter is deemed to have read the literature considered relevant by the funding body

- the day to day management of the project will be the responsibility of the project promoter who will, where appropriate, appoint a project manager
- all relevant employment legislation should be adhered to where staff are to be employed on the project.

Other areas covered by the terms and conditions include controls on items of capital expenditure, insurance cover, tendering procedures, accounting and reporting requirements, termination of funding arrangements for breach of conditions, and documentation and record keeping for audit purposes.

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Chapter 2: General accounting procedures

Aims of Section

- to outline the basic requirements of bookkeeping
- to describe the process required to maintain an accounting system
- to provide a quick reference for common accounting problems.

□ Basic Requirements of Book Keeping

Voluntary organisations come in many forms and sizes, which can make the production of a set of procedures that are applicable to all voluntary organisations difficult. However, some guiding principles are applicable to all organisations and require only minor modification to make them organisation specific.

The smaller organisations will be able to function with the operation of three 'books'. The accounting records are still referred to as the books. In some organisations these may well be actual books or ledgers, or they may be computerised using a specific accounting package or on a spreadsheet. In any case the physical format does not matter as the principles involved are the same for each. The following ledgers will be required as a minimum:

- a cash receipts book
- a cheque record book (cheque journal)
- a petty cash book.

□ General rules for maintaining books

Best practice on establishing and maintaining each of the ledgers outlined above is recommended below:

- all entries including totals should be made in permanent ink
- alterations should be made by drawing a single line through the incorrect entry, inserting the correct information and initialling it
- at no stage should correction fluid be used to overwrite on an error
- the books, together with other financial documents such as cheque and lodgement books, should be stored in a safe or other secure fireproof cabinet.

Cash Receipts Book

- this book is used to record all money, ie cash and cheques received

- all monies that are received should be banked as soon as is practical. However tempting it might be, it is bad practice to use cash received to pay bills without the money passing through the bank. If this does occur, it means that there is not a proper record of the transaction and that the bookkeeping required for these transactions becomes more complicated
- the total column shows the total of each individual transaction
- the bank column shows the total that is actually lodged and will appear on the bank statement. This will also facilitate the bank reconciliation later.

Cheque Journal

- this book is used to record all the cheques that are written by the organisation
- all payments, except those made through petty cash, should be made by cheque. Never use cash received to pay any expense
- the cheque journal should be set out with the analysis columns reflecting the accounts/budget headings. Avoid general headings such as 'general expenses' or 'sundry' as these will require further analysis at a later date
- the cheque journal is written up from the stubs of the chequebook. In larger organisations cheque requisition forms may be used
- the cheque journal should record the date the cheque is issued, the amount, the cheque number and the detail of to whom the cheque is made payable
- at the end of the month there may be items of expenditure that will appear on the bank statement and not in the cheque journal. Examples of these items are direct debits, standing orders, bank charges and bank interest. The Treasurer should ensure that these items are written into the cheque journal prior to it being 'closed off' for the month
- 'Closing off' is simply the term given to ruling off the cash receipt book and cheque journal and totalling the columns. At this point it is important to carry out a cross-check. This ensures the total of the individual columns agrees to the total in the total column indicating that there are no transcribing errors.

Petty Cash Book

- for certain purchases it is not practical to go through the process of raising a cheque, for example, the item is too small to merit a cheque being written. In these instances petty cash should be used

- petty cash is an amount of cash kept on the premises for the purchase of low value items that may be required from time to time, for example, postage stamps
- the best way to keep track of petty cash is to use an 'imprest' system. This is the name given to the method of having a cash 'float'. As the float is used, a cheque is then issued to replenish it to its original level
- the size of the float required will depend on the organisation, however, it should be as low as possible. It should be borne in mind that ESF rules on petty cash are that the maximum float should be maintained at £40 and that no individual purchase exceeds £10
- one person should be responsible for controlling petty cash and should not be a cheque signatory
- a pre-numbered petty cash voucher system should be operated. Each time a withdrawal is made from the float the details should be written on the voucher and signed by the person controlling the float. Also, the actual receipt should be attached to the voucher
- cash and vouchers should be kept in a lockable box that is stored in a safe place
- the vouchers are then used to complete the petty cash book. The petty cash book should also have columns that relate to the accounts/budget headings
- when the petty cash float is low, a cheque is issued to return the float to the original level. This means that the value of the cheque should equal the amount of purchases. When the cash is placed in the box, the vouchers making up that amount can be removed and placed in a file in numerical order
- petty cash should be reconciled on a weekly basis. The amount of cash in the box plus the value of the vouchers in the box should always equal the amount of the float. This reconciliation should be checked and countersigned by a person who does not control the petty cash.

Petty cash is often an area that causes concern for voluntary organisations. However, adherence to the guide above will ensure that the petty cash system will operate smoothly.

Ordering System

- purchase orders should be written out in triplicate. This is usually done via a triplicate carbon copy book, as set out below, that can either be purchased off the shelf from a stationery shop or be specially designed incorporating the organisation's logo.

Copy 1 Sent to supplier
Copy 2 Retained by organisation and matched to supplier invoice
Copy 3 Remains in purchase order book

- the purchase order should include details of the price agreed by the orderer and the supplier
- segregation of duties is a major control element of any system and means that one person does not complete too many stages in the process. For example, the organisation's general manager has the authority to order goods. When the goods are delivered, the secretary matches the goods to the purchase order and supplier delivery note. The Treasurer then matches the supplier invoice to the purchase order and supplier delivery note and also raises a cheque to pay the invoice, which is presented to two trustees for signature
- the above system would be considered ideal in terms of segregation of duties. However, the system involves five people. In many organisations the involvement of five people may not be possible. In these cases the organisation should at least strive to obtain segregation of duties between the person ordering and receiving the goods.

Receipt of Goods System

- when goods are received, they should be matched to the purchase order to ensure that all the goods ordered have been received. At this point the supplier documentation should also be checked. Suppliers may issue a delivery note at this stage with the invoice posted out after delivery or the invoice may double as the delivery docket
- checking goods at this stage will ensure that problems can be sorted out quickly and easily. If goods are wrongly delivered, then the deliveryman can return the goods immediately and arrange for the correct goods to be sent and amend any errors in the paperwork prior to processing by the organisation.

Payments System

- the receipt of goods system outlined should be adhered to
- all documentation regarding the purchase should be completed, for example, the purchase order matched to delivery docket (if applicable) and invoice
- check that the price charged agrees to price agreed at time of ordering
- all calculations on the invoice should be checked to ensure that the invoice is arithmetically correct. This check should be carried out even if the invoice has been computer generated - mistakes can still happen

- once all checks have been completed, the invoice is cleared for payment. A cheque can be presented to the trustees for signature
- the number of the cheque paying the invoice should be clearly marked on the face of the invoice. Once payment has been made, the invoice, together with the back up documentation attached, should be filed in cheque number order.

Cheque Payments

- cheques must be signed by two trustees
- there should be a number of trustees capable of signing cheques so that there is not a reliance on the same two trustees
- trustees should ensure that full back-up documentation is provided before signing the cheque
- cheques should never be pre-signed by one signatory, thus effectively allowing payments to be made on one signature.

Bank Reconciliation

The bank reconciliation carried out on a regular basis is a vital control in any organisation as it gives the organisation the true cash position at that moment in time. This is vital to allow organisations to operate within constraints such as bank overdraft limits.

Bank Reconciliation Proforma	
	£
Opening Balance (nil if new account or else taken from previous months reconciliation)	
Add Total of cash receipts book (1)	
Less Total of cheque journal (2)	
Book cash position (3)	
Balance per bank statement (4)	
Add Outstanding lodgements (5)	
Less Outstanding cheques (6)	
Adjusted bank position (7)	

1. total taken from cash receipts book
2. total taken from cheque journal
3. book cash position shows how much cash is available to the organisation
4. taken from the bank statement - ensure that total taken from bank statement is the balance at the end of the month
5. match the lodgements that appear on the bank statement to the cash received book. Place a tick beside the figure on the bank statement and also the figure in the cash

receipts journal if the figures agree. Any lodgements that are not ticked indicate that they have not yet reached the bank statement and are classed as outstanding. It takes approximately three working days for a lodgement to reach the bank statement, so that lodgements not appearing within a few days on the statement may indicate a problem

6. carry out the same exercise as stated in 5 above between the bank statement and the cheque journal. This will identify the outstanding cheques
7. this figure should agree to the figure obtained in 3. If the figures agree, then this indicates that the bank is reconciled.

The accounting procedures detailed above will be sufficient for most voluntary organisations. For more complex organisations, additional systems may be required. However, the basic principles remain the same for all organisations.

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Chapter 3: Budgeting

Aims of Section

- to outline the principles of budgeting relevant to the voluntary organisation
- to provide guidance on the preparation of a realistic and meaningful budget
- to introduce to the voluntary organisation the importance of budgeting in the context of financial planning.

□ Principles of Budgeting

The success of the project will ultimately be decided by the accuracy with which plans and budgets are assembled. Project and organisational survival depends on the avoidance of continuing losses through lack of accounting control. Budgeting, a method of accounting control, is the method by which specific objectives are to be attained and how performance against these objectives is gauged.

The main functions of budgeting, relevant to the voluntary organisation, are as follows:

- ***planning programmes/projects*** - this first aspect of budgeting is concerned with the setting of objectives by the project promoter and the allocation of scarce resources by the funding body. All budgets are based on forecasts of likely outcomes that, in turn, form the basis for planning. Such planning budgets are important in that they provide estimates of future income/expenditure levels that are of importance to the project promoter. However, the funding body also relies on the information so as to co-ordinate overall funding
- ***communication and co-ordination*** - budgets can play a part in the communication of project goals and objectives. They may be used to communicate plans both to managers responsible for implementing them and also to the funding bodies to aid their decision making and co-ordinating role in awarding funding
- ***evaluation of performance against objectives*** - the success of a project, and its promoters in charge of it, is often evaluated by reference to budget standards as these form a convenient quantitative reference point. Such evaluation may merely take the form of reporting actual expenditure against planned levels and leaving it to the project funder to formulate an opinion. More frequently, however, there will be a more formal review with the project promoter required to explain deviations from budgeted performance.

Of all the roles served by budgets and budgetary control, it is the performance evaluation role that may be of most importance as it is in this area that project promoters will be held

most accountable. Because one measure of the viability of a project is the ability of the promoter to live within a budget, the derivation of this budget is important.

□ **Preparing a Budget**

Compiling the figures

A good starting point for preparing a budget is to look at expenditure levels for the same, or a similar, project for the previous year noting whether the current year's expenditure is going to be more or less. Funding agencies will want to know what you want and for how long you need it. The basis of a good budget, therefore, is good planning.

In preparing a budget, the following points should be remembered:

- allow for all costs in the budget as unplanned expenditure will not be funded at a later stage
- always differentiate between capital costs, for example purchase equipment, premises and vehicles, and revenue costs, for example running costs of equipment and premises, stationery and salaries
- estimate costs realistically using up to date information, for example last year's costs, or information from similar projects in similar organisations. At the budget preparation stage, last year's accounts may not be available. It will be necessary, therefore, to project from the results of the first three quarters of the previous year the full year effect
- profile the funding needs of the organisation over the year or life of the project. Budget for how much you will need not just for the first year but for subsequent years. This will help establish long-term plans for securing long-term funding
- make allowances for inflation and state your assumptions when doing so
- provide for indirect or overhead costs which will be incurred as a result of undertaking the new project(s). Additional costs, such as telephone charges, rent, rates, heating, stationery will be incurred and will, if not provided for in your budget, have to be met from existing resources

Of course, when your budget has been drawn up, further work may be required in obtaining the acceptance of the management team and/or board of trustees. It is difficult to stand over a budget that does not balance. However, some useful suggestions as to how this gap may be funded would be useful.

Some pitfalls

Some avoidable problems commonly encountered in the budgeting process are caused by one, or a combination, of the following factors:

- under-estimation of costs or the exclusion altogether of certain costs
- failure to profile costs accurately over the year or life of the project with the result that, for example, unplanned up-front costs such as a deposit or advanced rental payment on premises cannot be met
- no provision for inflation
- lack of understanding of types of costs, for example, capital and revenue costs, and the implications on revenue costs of incurring certain types of capital costs

In summary, a budget should stand up to the following tests:

- does it reflect the promoter's plans for the future?
- does the income cover the expenditure?
- is the budgeted income attainable?
- is the budgeted expenditure accurate and cost effective?
- does the budget reflect known trends in that particular area?

It is worth noting that the budget needs to be kept under review and the earlier it is prepared, the more often it should be reviewed. Similarly, thought should be given to the preparation of a capital budget, which would be required where a project involved the purchase of premises and/or equipment.

□ **Planning expenditure**

It is not for the Treasurer or finance officer to decide what expenditure should be incurred or how it is to be paid for, but you will have an important role in the timing of such expenditure. Timing is important if the date of expenditure is earlier than the date on which funding will be made available. Several choices exist in this instance:

- proceed with expenditure as planned and incur a charge for interest on borrowed money
- proceed with expenditure and realise investments
- defer the expenditure and risk increased prices
- lease instead of purchase or

- hire-purchase.

Similarly, a capital budget should consider the following:

- the cost of the capital project and the dates on which payments fall due
- the requirement for funding and the date money should be made available and
- the likelihood and impact of timing differences and the alternative courses of action available and the likely costs of each.

The preparation of a robust, complete and accurate budget is important and the effort required in its compilation should not be underestimated. In addition to its importance as a tool for management, the budget is crucial in securing adequate financial resources to achieve the objects of the project.

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Chapter 4: Managing Finance Throughout the Year

Aims of Section

- to outline the characteristics of sound financial procedures and systems
- to review the requirements of the various funding bodies with regard to expenditure controls and payment rules and
- to advise on records and the requirements of good cashflow management.

□ Good Financial Systems

The records required of voluntary groups for individual projects are detailed and must relate to the organisation's main financial records. A prerequisite is a good system of financial control for the organisation as a whole before designing and implementing the additional record keeping required for new projects. Some of the characteristics of good financial systems include the following:

- a system that is easy to administer given that small organisations may have limited access to financial skills within existing staff
- a set of records filed in order, with the filing system documented and updated on a regular basis
- the daily maintenance of records to ensure that work is kept up to date;
- project administration, which is undertaken by existing in-house personnel, is given as much attention as the main work of the organisation.

Record Keeping

Working papers should be retained on file to back up any financial statements kept in relation to a project. They need to be clear, ordered and easy to read, and be able to be easily checked and cross-referenced to other records. The type of information that should be kept includes:

- the calculations on which the original budget was based
- background work to support the assumptions made during the planning stage of the project including the costings, the numbers of beneficiaries, time spent by staff and so on
- detail on how apportionments were calculated
- analysis of information contained in the main accounts of the organisation but relating to a specific project or projects.

Working papers must be referenced to each project to which they relate with a unique coding for each and in a format which can be readily understood by new staff to the organisation in future years.

□ **Information Requirements of Funding Bodies**

An audit trail is crucial to the proper administration of a project and its finances. In addition to the bookkeeping requirements outlined in chapter 2, the creation of a set of records to support the application budget and a set of detailed papers linking this to the claims and annual returns will be expected by the funding body to support the claims and to facilitate the work of their auditors at a later date. These will be expected to relate to the organisation's main accounting records, invoices and payroll records.

Examples of the paperwork required by funding bodies are included below:

- supplier invoices - these should be proper invoices with the name and address of the supplier, the date and details of the goods or services supplied. Invoices should be originals, not photocopies as they are not acceptable for audit purposes
- petty cash vouchers for miscellaneous expenditure with receipts attached
- expense claims and payments - a proforma should be completed and circulated to staff and beneficiaries who will be claiming expenses directly. It should show the date, destination and method of travel. Authorisation and receipts are required for all claims including the signature of the claimant to acknowledge receipt of the payment
- salary records showing salary payments and, where relevant, pension contributions and NIC/PAYE returns
- bank statements - proof that transactions and payments have gone through the bank account including the receipt of match funding and
- written evidence of match funding - this needs to be obtained, in writing, from the funding body on original headed paper showing the amount received and providing details of goods/services supplied.

It is important to remember that funding is provided within a particular time frame so that expenditure incurred before or after this agreed period will not be permitted. In the case of invoices dated outside the defined period, the date of the transaction should be detailed on the invoice.

□ **Planning Cashflows**

The cashflow projection is a statement of how the organisation's cash is expected to come in month by month during the year ahead and how the outgoings will be paid month by month during the same period. The object of the exercise is to discover

whether there will be an excess of expenditure over income and the extent to which an overdraft and/or cash reserves will need to be relied upon to meet the commitments of the project. The agreed budget for the year may appear satisfactory but this could disguise the fact that large payments may have to be made before reimbursement is made by the funding body.

If there are any doubts about your organisation's ability to pay creditors, you should prepare a cashflow statement at the time the budget is prepared. Cash problems should be discussed and resolved at this stage with consideration given to securing funding in advance of expenditure and/or delaying payment of suppliers until funding is advanced.

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Chapter 5: VAT Taxation and Tax Effective Giving

Aims of Section

- ❑ to explain how to treat VAT arising in the day to day transactions of the organisation;
- ❑ to review the steps involved in calculating a VAT return; and
- ❑ to document best practice with regard to tax effective giving.

❑ Value Added Tax

Like private individuals, most voluntary organisations must increase the majority of their expenses by 17.5% to take account of value added tax on purchases (VAT on inputs). Normally voluntary groups will not charge VAT on services provided (VAT on outputs) resulting in an excess of input over output VAT. For those groups that do charge VAT for goods or services provided, they must register with Customs and Excise and account for all VAT paid and charged.

An organisation registered for VAT will have to provide an analysis of input and output VAT on purchases and sales respectively. The net payment to, or claim from, Customs and Excise must be calculated quarterly and included in the accounts of the organisation throughout the year.

❑ Completing a VAT return

You must be clear about the status of VAT and the type of funding applied for prior to applying for funding and embarking on a project. VAT on expenditure may be reclaimed directly from the funding body meaning that for an item costing £100 plus VAT, £117.50 should be reclaimed. If Customs and Excise rule that you can reclaim VAT, then £100 should be claimed from the funding body and £17.50 from Customs and Excise. Confirmation of the status of your project or organisation should be obtained in writing from Customs and Excise.

An organisation registered for VAT will have to provide VAT columns in its cash book, cheque journal and petty cash book. The full amount of the payment or receipt should be entered in the 'amount' column, the net amount (excluding VAT) is recorded separately as is the VAT element itself. VAT is reviewed quarterly in keeping, if possible, with Customs and Excise VAT quarters ending in June (quarter 1), September (quarter 2), December (quarter 3) and March (quarter 4).

Depending on whether the input VAT or output VAT is greater, the net payment or receipt is transferred to the VAT account in your nominal ledger. At the end of the year the totals of the VAT columns should be posted to the VAT account on the ledger and the balance included as an asset or liability in the balance sheet of the organisation.

Exemption for small trading and other fundraising activities

Where your charity carries on a trade as part of its charitable purpose, any profits will usually be exempt from tax. Where, however, you carry on a trade to raise funds, any profits will generally not be exempt from tax (there is a tax exemption for the profits of lotteries and a concession for the profits of fundraising events - see 8.1 to 8.4). From April 2000, there is a new tax exemption for the profits of certain small trading and other fundraising activities carried on by charities that are not otherwise already exempt from tax. This will mean that, for tax purposes, you will no longer have to set up a trading company to carry on these activities.

The Charity Commission has confirmed that if your charity is governed by one of the Commission's model governing documents – which contain prohibitions on “any substantial permanent trading activity” – you may lawfully carry on the activities falling within the tax exemption without having to set up a trading company. If your charity has some other governing document, you should check that it permits to carry on a fundraising trade before doing so.

The exemption will apply to the profits of all trading activities, and most other incidental fundraising activities, that are not already exempt from tax, provided:

- the total turnover from all of the activities does not exceed the annual turnover limit or
- if the total turnover exceeds the annual turnover limit, you had a reasonable expectation that it would not do so and
- you use the profits solely for the purposes of the charity.

The annual turnover limit

The annual turnover limit is:

- £5,000 or
- if the turnover is greater than £5,000, 25% of the charity's 'incoming resources', subject to an overall limit of £50,000.

For this purpose, 'incoming resources' has a very wide meaning. It means the total receipts of the charity for the year from all sources (grants, donations, investment income etc).

Suppose you sell Christmas cards to raise funds and the sales in the year total £4,000. Assuming this is your only taxable fundraising activity, any profits will be exempt from tax, because the turnover does not exceed £5,000.

In the example above, suppose the sales in the year total £40,000 instead of £4,000. Any profits will still be exempt from tax provided the charity's incoming resources are at least £160,000, because the turnover does not exceed either:

- 25% of the incoming resources (£160,000 @ 25 per cent = £40,000) or
- the overall limit of £50,000.

Even if the charity's incoming resources are below £160,000, so that the turnover exceeds the annual turnover limit, the profits will still be exempt from tax if you had a reasonable expectation at the start of the year that the turnover would not exceed the limit.

In the example above, suppose the sales in the year total £60,000. This exceeds the overall annual turnover limit of £50,000. However, any profits will still be exempt from tax if you had a reasonable expectation at the start of the year that the turnover would not exceed the limit.

The reasonable expectation

If the total turnover of the taxable fundraising activities for any tax year exceeds the annual turnover limit, any profits will still be exempt from tax if you can show that, at the start of the tax year, it was reasonable for you to expect that the turnover would not exceed the limit. This might be because:

- you expected the turnover to be lower than it turned out to be or
- you expected the charity's incoming resources to be higher than they turned out to be.

The Inland Revenue will consider any evidence you may have to satisfy this reasonable expectation test. For example, if you have carried on the activity for a number of years, you might be able to show that the turnover increased unexpectedly compared with earlier years. If you started carrying on the fundraising activity in the year, you might be able to show that the turnover was higher than you forecast when you decided to start the activity. Or you might be able to show that the charity's incoming resources were lower than you forecast, perhaps because a grant you were expecting to receive was not paid in the year. Evidence might include minutes of meetings at which these matters were discussed, copies of cashflow forecasts and business plans prepared for these meetings, and copies of previous years' accounts.

Fundraising events

Where a fundraising event is run by a charity, or by a voluntary or community organisation to raise funds for charity, any profits from the event will be exempt from income tax and corporation tax if the event qualifies for exemption from VAT.

You will no longer have to deal separately with the Inland Revenue and Customs and Excise to determine whether your fundraising events qualify for exemption. If your

events meet the criteria for the VAT exemption, then they will automatically qualify for the purposes of the exemption from income tax and corporation tax.

Taxation

Tax Exemptions for Charities

Income Tax

Certain types of charity income are exempt from income tax as long as the income is used solely for charitable purposes, subject to conditions. It is this exemption which allows charities to reclaim tax made from donors' taxed income.

Corporation Tax

A charity which is a limited company is exempt from corporation tax. A limited company that is not itself a charity is allowed to deduct from its profits the gross annual value of payments made to the charity during the specific accounting period.

Capital Gains Tax

Charities are exempt from tax on chargeable gains if such gains are applicable and applied for charitable purposes. Donors are exempt from capital gains tax on any outright gift they make to charity. This would include works of art, property or gifts of shares.

□ Tax Effective Giving

Following from a consultation document produced by HM Treasury in March 1999, the Chancellor Gordon Brown announced in his Budget of March 2000, a package of measures to encourage individuals and companies to give to charity. The key direct tax changes were:

- extending the Gift Aid scheme to give tax relief for all donations, large or small, regular or one-off
- donors can join the Gift Aid scheme by phone or internet
- introduction of tax relief for gifts of shares or securities
- removal of the limit for donations under the Payroll Giving scheme and the addition of a 10% supplement to donations from April 2000 to April 2003
- allowing non-resident individuals and companies to make Gift Aid donations.

These changes to thresholds for Gift Aid and Payroll Giving have effectively made covenants unnecessary.

Gift Aid

Providing that the donor is a tax payer, a charity can claim tax relief on all donations, large or small, regular or one-off. The donor simply has to make a signed written declaration that they are a tax payer.

What a Gift Aid declaration must contain

Gift Aid declarations must contain:

- the donor's name
- the donor's address
- the charity's name or acronym
- a description of the donations to which the declaration relates
- a declaration that the donations are to be treated as Gift Aid donations.

In the case of a declaration given in writing (but not a declaration given orally):

- a note explaining the requirement that the donor must pay an amount of income tax or capital gains tax equal to the tax deducted from his or her donations
- the date of the declaration
- the donor's signature except for declarations given electronically.

You can pre-print the information on the declaration form if you wish. For example, you may wish to pre-print the charity's name.

Written records of oral declarations

If you receive an oral declaration, you must send the donor a written record of the declaration showing:

- all the details provided by the donor in his or her oral declaration
- a note explaining the requirement that the donor must pay an amount of income tax or capital gains tax equal to the tax deducted from his or her donations
- a note explaining the donor's entitlement to cancel the declaration retrospectively to the date on which the donor gave you the declaration
- the date on which you send the written record to the donor.

An oral declaration will not be effective unless and until you send the donor the written record. So, you cannot reclaim tax in respect of a donation covered by an oral declaration until you have sent the written record. Once you have sent the written record, you will be able to reclaim tax in respect of any donations covered by the declaration, even if you received them before you sent the written record.

Cancellation of declarations

Donors are entitled to notify you of the cancellation of their declaration at any time.

If a donor who has given you an oral declaration cancels it within the period of thirty days after you sent him or her the written record, the cancellation will have retrospective effect, so that it will be as if the declaration had never been made.

You do not have to wait for the thirty day period to expire before reclaiming tax in respect of donations you have received - but if you reclaim tax and the donor subsequently cancels his or her declaration within the thirty day period, you must pay the tax back to the Inland Revenue. It may be possible for you to pay the tax back to the Inland Revenue by deducting it from your next tax reclaim. You should contact the Financial Intermediaries and Claims Office if you wish to do this.

If a donor cancels a written declaration, or an oral declaration more than thirty days after you sent the written record, the cancellation will have effect only in relation to donations received by you on or after the date on which the donor notifies you of the cancellation, or such later date as the donor may specify. You must not reclaim tax in respect of such donations. Any donations received by you before the relevant date will still be Gift Aid donations.

The donor's name and address

In order to ensure that you can establish an audit trail to the donor from a donation, you should get details of the name and address as fully as possible. In the event that FICO audits your tax reclaim and the information you hold is insufficient to enable the auditor to trace the donor, you may have to get further information to show that your tax reclaim is correct.

Ideally, you should get the donor's full title, forenames and surname. At the very least you should get his or her initials and surname. And you should get the full postal address, including postcode.

Description of the donations to which a declaration relates

You can use any description you like. It might say something like:

- 'the donation of £s made to you on dd/mm/yy' or
- 'the enclosed donation' or
- 'all donations I make under the direct debit mandate below' or
- 'all donations I make on or after the date of this declaration' or
- 'all donations I have made since 6 April 2000 and all donations I make hereafter'.

It is important that you get the description right - the declaration will not cover any donations you receive that fall outside the description used.

Depending on the description used, a declaration may apply to future donations indefinitely. There will be no requirement for such declarations to be renewed periodically. As a matter of good practice you might, however, wish to remind your donors periodically that they have opted to treat their donations as Gift Aid donations, in case their circumstances have changed and they no longer pay income tax or capital gains tax equal to the tax deducted from their donations. Otherwise, your donors may incur an additional liability to tax.

Declaration that donations are to be treated as Gift Aid donations

Again you can choose your own wording. You might say something like:

- 'Please treat my donations as Gift Aid donations' or
- 'I want my donations to be Gift Aid donations' or
- 'Please reclaim tax on my donations' or
- 'I want the charity to reclaim tax on my donations' or
- 'I want the charity to reclaim tax on my donations' - Yes/No (*delete as appropriate*)
or
- 'Tick here if you want to reclaim tax on your donations []'.

Note explaining the tax requirement

Again, you choose your own wording. You might say something like:

- 'You must pay an amount of income tax or capital gains tax equal to the tax we reclaim on your donations (28p for every £1 you give)' or
- 'Remember to notify us if you no longer pay an amount of income tax or capital gains tax equal to the tax we reclaim on your donations (28p for every £1 you give)'.

Record-keeping

You must keep sufficient records to show that your tax reclaims are accurate. In other words, you must keep records that enable you to show:

- an audit trail linking each donation to an identifiable donor who has given you a valid Gift Aid declaration and
- that all the other conditions for the tax relief are satisfied.

If you do not keep adequate records, you may be required to pay back to the Inland Revenue tax you have reclaimed, with interest. You may also be liable to a penalty.

The form of records you should keep is not prescribed in detail in the legislation and has not changed significantly as a result of the new Gift Aid measures. In practice, it will depend on the size of your charity, the number of donors you have and the kind of

systems you use. In the event that FICO audits your tax reclaim, the auditor will usually ask to see in respect of a donation:

- any written Gift Aid declaration
- in the case of an oral Gift Aid declaration, a copy of the written record sent to the donor
- any correspondence to or from the donor which relates to his or her Gift Aid donations, including
 - any notification of a change in the details given in the Gift Aid declaration (for example, a change of name or change of address)
 - any notification of the cancellation of the Gift Aid declaration
- your bank statements
- your paying-in book stubs, detailing all cheques and cash banked
- statements you receive from credit card companies showing details of credit card donations
- your cash book recording the receipt of cash donations
- if you use envelopes, such as church stewardship envelopes, to collect cash donations
- a sample of the envelopes and a record of the sums enclosed
- any other records you keep relating to the donation.

You do not have to keep your records on paper. They may be held on the hard drive of a computer, floppy disc or CD ROM, or stored on microfiche. Signed declarations should be kept in a form which preserves the signature – for example, by microfilming or electronically scanning them. If you keep your records on computer, it is advisable to make regular back-ups and store these in a different location to the computer.

The Inland Revenue has published a Code of Practice (Code of Practice 5) entitled *Inspection of Charities' Records*. The leaflet tells you how FICO carries out its audit inspections. In particular, it explains your rights, and promises that you will be treated fairly and courteously. It also promises that FICO will provide help where appropriate. You will be sent a copy of Code of Practice 5 before any audit inspection.

How long must you keep records?

If your charity is a charitable trust, you must keep records until:

- the 31 January next but one after the end of the tax year to which your tax reclaim relates (for example, if you make a tax reclaim for the tax year 2000/2001, until 31 January 2003) or
- one year after you make your tax reclaim, rounded to the end of the next quarter (for example, if you make a tax reclaim on 25 May 2002, until 30 June 2003) or
- FICO completes any audit it has commenced.

whichever is the later.

If your charity is a company, you must keep records until six years after the end of the accounting period to which your tax reclaim relates.

These are the minimum periods for which you must keep records. In the event that FICO audits your tax reclaim and the auditor identifies errors, he or she may re-open your tax reclaims for earlier years. Therefore, it may be in your interests to keep your records longer than the minimum period.

Remember, if a donor has given you a declaration which covers donations that he or she may make in the future, you will in any event need to keep the records relating to the declaration to enable you to reclaim tax on those future donations.

The donor benefit rules

Some charities like to make a token gesture to show their appreciation for a donation. Modest benefits given in return for a donation will not stop the donation from qualifying as a Gift Aid donation, provided their value does not exceed certain limits.

The maximum benefits that a donor, or a person connected with the donor, can receive in return for his or her donations are:

Aggregate donations in the tax year	Maximum aggregate value of benefits in the tax year
£0-100	25% of the aggregate donations
£101-1,000	£25
£1,001-10,000	2.5% of the aggregate donations
£10,001+	£250

For the purposes of the donor benefit rules, the provision of a free or reduced-price right of admission to property for the donor or any member of his family is disregarded if:

- it is to view property the preservation of which is your charity's sole or main aim or
- it is to view wildlife the conservation of which is your charity's sole or main aim and
- the opportunity to receive this benefit in return for a donation is open to the public generally.

This relaxation of the donor benefit rules does not apply to free or reduced-price admission for non-family guests of the donor, or to anything beyond admission.

Reclaiming tax on donations

Payroll giving

Under the Payroll Giving scheme, employees can authorise their employer to deduct charitable donations from their pay before calculating Pay As You Earn tax. This way, the employee automatically gets tax relief at his or her top rate of tax.

There is no limit on the amount that can be given under the scheme.

The 10% supplement

As part of a government campaign to promote Payroll Giving, the government will pay a 10% supplement on all donations made under the Payroll Giving scheme in the period 6 April 2000 to 5 April 2003 inclusive. The supplement will be distributed to charities by Payroll Giving agencies along with Payroll Giving donations. Agencies will not deduct any administration fee from the supplement.

Some Payroll Giving agencies issue vouchers to employees in respect of their donations, which they can then give to the charities of their choice to redeem from the agency. To simplify the administration of the 10% supplement, agencies may add the supplement to the employee's donation account, in which case the amounts shown on vouchers given to charities will include the supplement.

Gifts of listed shares and securities

It is possible to claim tax relief for gifts to charity of listed shares and securities, also units in authorised unit trusts and shares in open-ended investment companies. It also applies to holdings in foreign collective investment schemes and unlisted shares and securities dealt with on a recognised stock exchange.

The tax relief will be given to the donor by way of a deduction for the full value of the gift in computing income or profits for income tax. This will be in addition to any existing capital gains tax relief.

This means a donor giving this way will receive income and capital gains tax relief.

Further guidance and where to get help

IR Charities	Helpline 0151 472 6036/7
St Johns House	Form Requests 0151 472 6293/4
Merton Road	Fax 0151 472 6034
Bootle	
Merseyside	
L69 9BB	

www.inlandrevenue.gov.uk/menus/charity.htm

Model Gift Aid Declaration

Gift Aid Declaration

Name of Charity

Details of donor

Title..... Forename(s) Surname

Address

.....

..... Postcode

I want the charity to treat

- *the enclosed donation of £
- *the donations(s) of £ which I made on/...../.....
- *all donations I make from the date of this declaration until I notify you otherwise
- *all donations I have made since 6 April 2001, and all donations I make from the date of this declaration until I notify you otherwise

as Gift Aid donations.

**delete as appropriate*

Signature Date/...../.....

Notes

- 1 If your declaration covers donations you may make in the future:
 - please notify the charity if you change your name or address while the declaration is still in force
 - you can cancel the declaration at any time by notifying the charity – it will then not apply to donations you make on or after the date of cancellation or such later date as you specify.
- 2 You must pay an amount of income tax and/or capital gains tax at least equal to the tax that the charity reclaims on your donations in the tax year (currently 28p for each £1 you give).
- 3 If in the future your circumstances change and you no longer pay tax on your income and capital gains equal to the tax that the charity reclaims, you can cancel your declaration (see note 1).
- 4 If you pay tax at the higher rate, you can claim further tax relief in your Self Assessment tax return.
- 5 If you are unsure whether your donations qualify for Gift Aid tax relief, ask the charity. Or you can ask your local tax office for leaflet IR113 *Gift Aid*.

Payroll giving

Under the Payroll Giving scheme, employees can authorise their employer to deduct charitable donations from their pay before calculating Pay As You Earn tax. This way, the employee automatically gets tax relief at his or her top rate of tax.

There is no limit on the amount that can be given under the scheme.

Chapter 6: Auditing - What is it and why?

Aims of Section

- ❑ to remove the mystery surrounding audits and auditors
 - ❑ to outline ways of getting the most out of the annual audit and
 - ❑ to provide advice on employing an auditor.
-
- ❑ **What is an Audit?**

UK Auditing Standards and Guidelines define an audit as the independent examination of, and expression of, an opinion on the financial statements of an enterprise. In plain language an audit is someone from outside the organisation coming in to look at information provided by that organisation with a view to determining if the information provided is an accurate reflection of the actual events.

A common misconception is that an audit is an opportunity to check up on people in the organisation in an attempt to catch them out, and highlight mistakes that they have made. It is also a common misconception that an audit is solely about detecting fraud. This is a very negative view of audit and, if this view is taken, the organisation is missing out on an opportunity to receive expert advice from a professional who will have experience in a number of organisations similar to your own.

Types of audit

The project promoter will be subject to one or more of the following types of audit:

- statutory annual audit of financial statements (the accounts) - this is often a legal requirement and, as such, will have to be carried out by a registered auditor
- annual audit of financial statements (the accounts) - often, in cases where it is not a legal requirement to have an annual audit, it may be considered necessary by the trustees or be required by the rules of the organisation
- audit of project by funding provider - this may not be on an annual basis and can occur at any time in the life of a particular project. In this case the organisation as a whole is not being looked at, rather the record keeping in relation to the particular project. These audits may be carried out by employees of the funding body provider or sub-contracted to a registered auditor
- revenue audits - these audits involve the Inland Revenue carrying out an audit of the wages and salaries system to ensure that the organisation is operating the PAYE and National Insurance systems correctly
- customs and Excise audits - these audits are carried out to ensure that the organisation is operating the VAT system correctly.

It is important to remember that a well run organisation with good accounting procedures and controls should have nothing to fear from any auditor.

□ **Why have an Audit**

The simple answer to this question is that the organisation is legally required to do so. It is either a legal requirement or a requirement of the funding provider. However, other reasons for having an audit, particularly an annual audit, include the following:

- it assists in future fundraising by showing independent verification that money donated to the organisation has been spent within the organisation's aims and objectives
- it may be a requirement of the organisation's bank especially if the organisation is in overdraft
- it provides reassurance to trustees who are not involved in the day to day running of the organisation
- audit should incorporate a detailed examination of the organisation's systems. The results of this, together with recommendations for improvement, should be reported to management
- auditors should be able, as an integral part of the audit, to provide advice/assistance with accounts preparation, budgets, tax, computerisation or any other form of financial control
- it ensures that the organisation is fulfilling the requirements placed upon it by various funding providers. This will ensure that any errors or gaps in information provision can be corrected prior to the arrival of the funders' auditors.

□ **Auditors - What to Look For?**

By employing an auditor, your organisation is engaging in a commercial transaction similar to any other type of purchase and, as with most commercial transactions, you get what you pay for. The auditor should be a member of a recognised accountancy body. This means that he/she should have one of the following qualifications:

- Institute of Chartered Accountants in Ireland
- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants in Scotland
- Chartered Association of Certified Accountants
- Association of Authorised Public Accountants.

Accountancy firms come in various forms from a sole practitioner to very large multi-national firms. It is impossible to recommend which size or type of firm is best for any particular organisation. However, all firms, regardless of size or type of qualification, should operate to the highest professional standards.

Engaging an auditor

If you are a new organisation or an organisation that is opting for an annual audit for the first time, you will need to engage (ie employ) an auditor. It may also be the case that your current auditor has been in place for a number of years and it may be time for a change. Some organisations specify the time period that an auditor can serve as part of their constitutions. It is worth noting that, whilst it may well be the head of finance that obtains the relevant information to help appoint an auditor, the actual decision should be made at trustee level. The following information should be sought as a minimum:

- invite quotations from a minimum of three firms. Obtain the quotation in writing with details of what services are provided as part of the audit fee, for example, actual accounts preparation if your organisation's bookkeeper does not have that capability
- in order to prepare a proper quotation, a representative of the firm may have to come to your premises or at least engage in a lengthy conversation on the phone to obtain details of the organisation such as its size, number of staff involved and so on. Use this opportunity to find out what experience the firm has with organisations that are in a similar position to your own and make notes as this will aid any presentation to trustees
- experience in the voluntary sector will be essential as the auditor must be aware of the requirements of various funding providers in order to provide quality advice
- find out how accessible the staff are. The majority of accountancy firms operate by having trainees perform the majority of the field work (ie the work carried out on your premises or the initial work at the accountants' premises if the books are taken to the accountants). This work is monitored and controlled by a qualified and experienced manager. Once the manager is satisfied with the quality of the work, it is passed to the owner/partner for a final review prior to issue to the client, ie you. It is important that you establish a good working relationship with the person managing the audit as this will be the person to whom you should direct requests for advice and help as and when required. Once a good relationship has been established, advice can be received quickly and at no extra cost
- do not be afraid to emphasise your voluntary status when negotiating the fee. It must be borne in mind, however, that you still require the highest professional standards that have to be paid for
- once all information has been gathered, present findings to trustees to enable them to make the final decision.

Audits should not be seen as a potential problem as every organisation can benefit from an independent review. This can highlight potential efficiency savings or just reassure the trustees that all is well.

Managing Your Money

The Good Practice guide

Chapter 7: Banking - What to Look For

Aims of Section

- to define the relationship between an organisation and its bankers and
- to outline how to get the best out of banking services.

Reviewing Banking Arrangements

Often for established organisations the banking service is not even considered because the organisation has been with a particular bank since the organisation began. No thought is given to the actual service received or whether the same level of service could be obtained at a lower cost. Banking is like any other service, there is lots of choice and lots of competition to attract new business. This can often leave existing customers feeling that their business is less important than new customers. It must be borne in mind that, although the banking service is vital to the organisation, it is still a service provider/customer relationship.

Obtaining best value in banking services

The organisation should draw up a banking specification highlighting the organisation's specific requirements. This can then be presented to a number of banks from which the most appropriate can be selected. In many cases it is appropriate to operate two bank accounts - a current account for the day to day transactions and a deposit account to ensure that credit balances obtain the best possible return. Some points that should be considered in drawing up a specification are detailed below:

- due to their nature, voluntary organisations tend to have a large number of low value transactions. If this is the case, then a fixed annual fee should be negotiated. Currently there may well be deals which offer free banking, however, the small print needs to be examined as often this could mean that the first ten transactions in a month are free with a charge per item thereafter
- establish the detail of the charging schedule and whether this still applies in an overdraft situation
- does charging extend to the deposit of large amounts of coins/cash from public collections?
- if the organisation operates overseas, are there charges for foreign currency transactions?
- will charges be made for audit letters or any other relevant correspondence?
- many banks have recognised the needs of the voluntary sector and devised banking facilities specific to this sector. Enquire about whether these operate

- for many organisations transaction charges are only part of the banking cost. Interest rates need to be considered to obtain an overall cost. Also, if the organisation is cash rich or, due to timing of cashflows, becomes cash rich at certain times of the year, are there accounts available that make the best use of this money?
- once the relevant information has been collected, it should be presented to the trustees to make the final decision.

Having an understanding bank manager is another way of your organisation having access to highly professional skills at no extra cost. As the organisation grows or goes through periods of difficulties, keeping your bank informed means that the bank will be able to use its experience to help your organisation. In addition to pure banking services, your bank should be able to provide free advice on law, marketing and various aspects of taxation.

SAMPLE TENDER DOCUMENT

Date:

Bank:

Dear Sir/Madam

Tender Ref:

NICVA
Tender for the Provision of Banking Services
Period - three years commencing 1 December 2000

NICVA is in the process of reviewing our banking services and therefore wishes to consider the major banks available.

We have now considered the options open to NICVA and we are pleased to enclose a tender document outlining our requirements.

Our Resources Committee, which will make the final decision regarding banking arrangements, will meet in October to consider the proposals set before it. For your guidance, notes and instructions for the tender are detailed below:

1. Introduction

NICVA is the umbrella body for voluntary, community and charitable groups in Northern Ireland, providing its 600 affiliated members with information, advice and training on a wide range of issues from management consultancy and finance, through to policy development and lobbying. A copy of our annual report 1997/98 is included for further information.

2. Summary of Requirements

The Tender Specification is attached at Appendix A. The successful Tenderer will be required to provide a full range of banking services and in addition we shall be looking for:

- advice and assistance on implementation of technical advances in banking services on a proactive partnership basis
- co-operation in an imaginative and innovative manner to progress the aims and values of NICVA

- advice and assistance as required on all aspects of NICVA's banking needs.

Banks are required to have appropriate professional expertise, experience, adequate staffing and other resources to deal with NICVA's banking needs.

3. Tender Documentation

Documentation enclosed:

Appendix A Tender Specification - for information

Appendix B NICVA's Aims and Values

Appendix C Form of Tender - for completion, signature and return

Appendix D Certificate relating to Bona Fide Tender - for signature and return

Annual Report 1997/98

Label for return of Tender

The tender documentation is to be returned, using the label provided, and should be forwarded (by hand or post) to be received not later than 12 noon, 9 October 1998 and delivered to the address shown on the label.

4. General Information

- all information provided by the bank will be treated as strictly confidential
- the proposed timetable for this tender exercise will be:

Closing date for receipt of tender	xx/xx/xx
Resources Committee meeting	xx/xx/xx
- acceptance/non-acceptance of the tender will be advised as soon as possible thereafter
- NICVA reserves the right to accept all or part of any tender
- NICVA does not bind itself to accept the lowest or any tender
- Please include three copies of any brochures or supporting information.

Yours faithfully

Encs

Tender Ref: N/RC/FM

**Tender for the Provision of Banking Services
Period - three years commencing 1 December xxxx**

TENDER SPECIFICATION

Criteria

Tenders will be required to produce evidence of and demonstrate ability to provide the following:

1. Specialist knowledge and expertise:
 - previous experience in providing banking services to voluntary sector bodies/organisations
 - knowledge of the arrangements for the organisation, management and delivery of banking services to voluntary/charitable sector bodies
 - technical and technological expertise in the provision of banking services to voluntary sector bodies.
2. Quality Services
 - location of branches to suit the needs of NICVA
 - provision of a point of contact with suitable level of ability to oversee the smooth and efficient operation of the accounts required by NICVA
 - provision of suitable staff to ensure the efficient operation of NICVA's accounts
 - provision of range of products and services including Corporate Banking Support Facilities and availability of SMART card technology.
3. Quality of Tender
 - value for money
 - contingency arrangements for emergencies, etc
 - future developments including new products, etc
 - commitment to co-operate and to deliver services as specified
4. Credit Rating

- evidence of credit worthiness.

5. Banking Charges

- the proposed charging structure must be clearly identified.



FORM OF TENDER

1. Details of Tenderer

Name of Bank	
Address of Head Office	
Address of office submitting this tender, if different from above	

Person submitting this tender

Name	
Signature	
Position in organisation	

Person to be contacted regarding this tender

Name	
Position in organisation	
Telephone	
Fax	
Email address	

2. INFORMATION PROVIDED TO TENDERERS

- (a) Period of tender will be for three years commencing 1 December
(b) Number and type of bank accounts currently used:

Current Accounts

- NICVA NO 1 ACCOUNTS
- NICVA GRANTS
- CHEQUES FOR CHARITY
- INVEST
- COMMUNITY DEVELOPMENT RESEARCH.

Deposit Accounts

- NICVA RESERVE FUND
- NICVA GRANTS RESERVE
- CHEQUES FOR CHARITY RESERVE FUND.

Investments (or fixed term deposits)*

- NICVA PREMISES RESERVE (capital growth most important)
- NICVA GRANTS CAPITAL (good income generation, but inflation proof capital)
- NICVA INVESTMENT FUNDS (capital growth and income generation equally important)
- NICVA CHEQUES FOR CHARITY FIXED FUND (maximize income on secured capital).

**The majority of these funds could be freed for re-investment. NICVA would consider placing some or all of them in fixed-term accounts where this would better meet the*

parameters than long-term investment. In the case of Cheques for Charity monies, income is paramount and NICVA will place these accounts wherever interest rates are most favourable.

3. NATURE AND COMPOSITION OF FUNDS

Current Accounts

NICVA Main operating account of the Council

Turnover:
Funded by:
Finances:
Transactions:

NICVA GRANTS For payment of grants (up to £500 each) to other charities

Turnover:
Funded by:
Transactions:

CHEQUES FOR CHARITY Used to honour CFC donors' payments to charities/voluntary groups

Turnover:
Funded by:
Transactions:

INVEST INITIATIVE Independent project managed by NICVA

Turnover:
Funded by:
Transactions:

COMMUNITY DEVELOPMENT RESEARCH Independent project

Turnover:
Funded by:
Transactions:

Deposit Accounts

NICVA RESERVE FUND - reserves for transfers to retain balance in current account

Community Projects Fund
Seapark Trust

Comprises:	Equities	x.xx
	UK Gilts and Fixed Interest	x.xx
	Cash	x.xx

Fund Balance: as up to 30 June

NICVA INVESTMENT FUNDS Part of NICVA's reserves

Parameters: Income and capital growth of equal importance

Comprises:	Equities	x.xx
	Cash	x.xx

Fund Balance: as up to 30 June

CHEQUES FOR CHARITY FIXED FUND Pool of donor funds

Parameters: Maximise income. Protect face value of capital.

Fund Balance: as up to 23 July

4. NICVA'S SPECIFIC REQUIREMENTS

- (a) daily sweep of current accounts cleared balances to reserve account including proposals for determination of interest rates payable.
- (b) provision of payment by BACS
- (c) issue of foreign drafts
- (d) issue of foreign currency
- (e) facility to stop cheques
- (f) facilities for dealing with credit card sales
- (g) same day value for lodgements regardless of which branch lodgement is made
- (h) provision of balance enquiries by telephone/electronic banking methods and statements with paid cheques and paying in vouchers

- (i) assistance with implementation of integrated electronic banking facilities with new financial systems
- (j) provision of direct debit facilities and direct debit retrieval via BACS
- (k) proposals for specific voluntary sector banking products
- (l) business credit card facilities.

5. **BANKS DETAILED PROPOSALS FOR DELIVERY OF SERVICES.**
Please list below or attach your detailed delivery proposals.

6. **SCHEDULE OF CHARGES FOR SERVICES REQUIRED DURING THE TENDER PERIOD**
Please detail below or attach your service charges for the various components of your proposals.

7. INVESTMENTS

Should you be in a position to make recommendations regarding the location of our investment portfolio, please also submit details of your service and costs. Please demonstrate consideration of charitable status.

NORTHERN IRELAND COUNCIL FOR VOLUNTARY ACTION

CERTIFICATE RELATING TO BONA FIDE TENDER

1. The essence of tendering is that the Client shall receive bona fide, competitive tenders from all firms tendering. In recognition of this principle, we certify that this is a bona fide tender intended to be competitive, and that we have not fixed or adjusted the amount of the tender by, or under, or in accordance with, any agreement or arrangement with any other person.

2. We also certify that we have not:
 - (a) communicated to a person other than the person calling for these, the amount or approximate amount of the proposed tender
 - (b) entered into any agreement with any other person that shall refrain from tendering or as to the amount of any tender to be submitted
 - (c) offered, or paid, or given, or agreed to pay or give any sum of money or valuable consideration, directly or indirectly, to any person for doing, or having done, or causing, or having caused to be done, in relation to any other tender or proposed tender, for the said work, any act or thing of the sort described above.

3. We undertake that we will not do any of the acts mentioned in paragraphs 2 (a), 2 (b) or 2 (c) above at any time before the date and hour specified for the return of this tender.

4. In this certificate the word 'person' includes any persons and any body or association, corporate or incorporated and 'any agreement or arrangement' includes any such transaction, formal or informal, and whether legally binding or not.

SIGNED BY THE TENDERER

FOR AND ON BEHALF OF

DATE

Managing Your Money

The Good Practice Guide

Chapter 8: Investments

Aims of Section

- to advise on how to choose a fund manager for your organisation
 - to provide an introduction to the types of fees to be expected for this service
 - to review performance indicators which will assist the organisation to select the most suitable service and
 - to explain ethical investments.
-
- **How to Choose a Fund Manager**

Many organisations operate on a shoe string budget with survival a daily struggle. However, some organisations are in the fortunate position where they have money to make investments and it is the return from these investments that is used to further the organisation's objectives. In these cases the trustees will often have to appoint a fund manager. The following points outline the main areas for attention when doing this.

Investment philosophy and process

Understanding a firm's investment strategy is complicated, however, the following factors should be considered:

- the firm's long-term investment strategy
- the methods by which that strategy is determined, in particular the balance between asset allocation and stock selection
- research resources at the firm's disposal
- their presence in overseas markets
- variation between strategy for charity funds and other funds
- discretion enjoyed by individual managers as against house policies
- the risk management strategies that are employed
- the circumstances where pooled funds might be used
- procedures for ensuring that your organisation's investment guidelines are complied with.

Performance

Past performance is not necessarily a good guide to future performance and all comparative performance statistics should be treated with caution, particularly as voluntary organisations may have differing investment requirements. Trustees should look for the following:

- long-term record, for example, over last five years
- consistency of performance from year to year
- independent measurement of performance
- whether employees responsible for good past performance are still working for the company.

Voluntary organisation expertise

Voluntary organisations will have distinct and separate needs from other clients. It may be worth noting the following:

- how many voluntary organisation portfolios, and of what value, are managed?
- how important is voluntary organisation business in relation to the firm as a whole?
- to what extent are voluntary organisation fund managers responsible for other types of clients?
- how do their investment strategies vary from that used for other clients?

Fees

The following types of fees are often charged:

- annual Management Fee - usually expressed as a percentage of the total portfolio size. A 'clean fee' is calculated on this basis with no additional costs
- commission - levied on the basis of the number and size of the transactions and effectively a charge on capital
- administration charges - charges such as tax reclaim services are often given for 'free' but may be included in the higher annual management charge
- charges for pooled funds - these take two forms - an initial and annual charge for the use of investment and unit trusts run by third parties, and annual charges for a firm's in-house funds
- third party charges - commission payable to agency brokers will usually be passed on to clients
- uninvested cash - fund managers frequently retain a percentage of cash held on deposit with the firm while awaiting investment. Sometimes this deduction is transparent, but often it is hidden in a lower rate of interest.

Other services

Other services that may need to be included in the fee charged include the following:

- performance reports and valuations indicating whether independent performance measurement is included in their fee
- regular meetings with trustees
- custodian facilities
- tax reclaim services
- cash management services.

People

A meeting should be arranged with the people who actually manage the fund, not just the marketing department. For example, after the initial securing of your business, the fund may end up being managed by trainees. The following is worth noting:

- the experience of the individual fund managers providing the service
- voluntary organisation experience of the individual fund managers
- turnover of staff within the firm.

Once the trustees have considered the above points, they will be in a position to appoint a fund manager. Once this appointment has been made, it is up to the trustees to ensure that the fund manager's performance is of the standard expected. The appointment of a fund manager does not mean that the trustee's obligations to obtain the best use of the organisation's funds have been wholly met. Trustees must monitor the fund manager's performance.

□ Measuring Investment Performance

This monitoring role of trustees should involve the following:

- define objectives and set a benchmark. The benchmark must be achievable and agreed by both trustees and the manager. It may take the form of a combination of market indices weighted for the particular circumstances of the organisation or by way of comparison to similar funds, if available
- define the measurement time frame. It is generally recognised that the minimum time period to judge a fund manager is three years
- collect data and calculate returns. This ensures that comparisons can be made. The return must be a total return, ie capital appreciation plus income earned
- analyse the data to see if the fund has under-performed, matched or outperformed the benchmark
- pinpoint manager's strengths and weaknesses. This is done by assessing how the manager's policy decisions have affected results. For example, if the benchmark states that 50% UK equities must be held and the fund manager has decided to hold 60%, then provided UK equities perform well in relation to other holdings, this will

show as increased performance. The other key decision is what stocks should be purchased, being described as stock selection. Trustees should analyse policy decisions and stock selection to ensure that over the longer term the manager is giving added value

- obtain independent third party performance measurements to evaluate the fund performance. Findings should be reported in person to the trustees
- periodically review the benchmark to ensure that this has been set at the correct level.

□ **Ethical Investments**

Ethical investment is a topic that is becoming ever more popular. However, it still only accounts for a very small proportion of overall charity investment. This is due to the fact that trustees are constrained by case law which stresses that trustees must not be seen to allow their personal prejudices to interfere with investment returns. Case law only refers to 'direct conflicts', for example, this would not permit a cancer charity to invest in a tobacco company.

In formulating an ethical investment policy, the voluntary organisation should consider the following:

- you will need to be clear about the motivation for the policy, for example, does it flow from the objectives of the organisation, and have staff, donors, supporters or other groups been approached for their views?
- consider how much time and energy can be committed to the policy. For example, are general guidelines being established or is every company considered for investment going to be examined?
- successful establishment of the policy will depend upon a key person within the organisation driving it forward
- clear responsibility has to be delegated to a person who is responsible for obtaining the information needed to operate the policy and has authority for making day to day decisions
- establish whether the existing fund manager will be up to the task
- redesign the benchmark to incorporate the ethical element
- review the policy every three to five years as attitudes, companies and issues change and may require policy changes.

Investments are an area that will require a great deal of effort from the trustees to ensure that the organisation is obtaining the best return given the constraints of the organisation's investment policy.

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The Guide to Good Employment

Chapter 9: The Role of Trustees

Aims of Section

- to outline who the trustees are and document who they are and
- to describe how to get the most out of trustees.

□ Who are the Trustees

The Charity Commission defines charity trustees as the people responsible, under the charity's governing document, for controlling the management and administration of the charity, regardless of what they are called. The people who govern your charity may not be referred to as trustees. They may be called members of the committee, management committee members, directors, council members, governors or something similar. However, no matter what the title, if you are a member of the governing body, you are entitled to vote at meetings as a trustee.

□ The Role of Trustees

The role of trustees is wide-ranging and includes the following:

- ensuring that all of the organisation's activities are within the law
- ensuring that all the organisation's activities are in keeping with the organisation's objectives
- determining the organisation's mission and purpose
- guarding the organisation's ethos and values
- developing and agreeing the organisation's policies
- developing and agreeing the organisation's strategic plan
- agreeing the budget and monitoring financial performance
- ensuring the organisation has adequate resources
- ensuring the organisation's property, assets and other resources are protected and managed effectively
- monitoring the organisation's programmes and services
- ensuring accountability, as required by law and others such as donors, beneficiaries, staff, volunteers and the general public
- reviewing annually the performance of the board of trustees
- supporting the senior staff team and reviewing their performance
- acting as court of appeal on personnel matters
- acting within its powers as set out in the governing document.

In order to carry out its role the board must:

- meet as often as is necessary for the proper administration of the charity and
- seek professional and other expert advice where necessary.

The above list is detailed and not all points are relevant to every organisation. However, it can be seen that the trustees play a vital role in any voluntary organisation. They have the power to make decisions that should not be made by senior management and that are outside the normal day to day running of the organisation.

Who should be trustees

Appointing trustees is a very serious matter given the important role of trustees and should not be entered into lightly. From the organisation's point of view, it is an opportunity to obtain management expertise at zero cost. If an organisation can obtain trustees from business, banking or other professions, then they will be able to use their particular skills to the benefit of the organisation.

It can be seen that the importance of the trustees cannot be stressed enough. Often in many voluntary organisations, it can be the senior employees or volunteers who are perceived as the decision-makers in the organisation. If this is the case in your organisation, the trustees must assert their position.

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Chapter 10: Statement of Recommended Practice 2 ‘Accounting by Charities’ (SORP 2)

Aims of Section

- ❑ to highlight the main points of the SORP and
- ❑ to stress the importance of the annual report.

❑ Introduction to SORP 2

The requirements detailed in the SORP are not yet required to be implemented in Northern Ireland. However, the SORP is required to be implemented in the other parts of the UK and it will only be a matter of time before it is compulsory in Northern Ireland. Organisations should consider implementing the SORP now, not just because they will be forced to in the near future, but because it is now considered best practice.

The aim of the SORP is to improve the quality of the financial reporting of charities and also to provide assistance to those responsible for the preparation of charities’ annual reports and accounts. Currently there is a great diversity of accounting practice and presentation with the SORP attempting to reduce this diversity but not to standardise them.

The main vehicle for improved financial reporting is the annual report. The SORP sets out recommendations on the form and content of the annual report and on the way in which the accounts contained in the report should be prepared.

The Annual Report

The annual report should contain the following:

- legal and administrative details
- a trustees' report or equivalent statement
- the accounts and notes thereto, and an auditors' report if the accounts have been audited.

The trustees of the charity are responsible for the preparation of the annual report. This duty should be discharged by formally approving and adopting the report. The trustees’ report and the balance sheet should be signed by at least two trustees on behalf of all of them in order to show this approval. The date of approval should also be disclosed.

Legal and administrative details

The legal and administrative details provided in the annual report should include the following:

- the nature of the governing instrument or legal status of the charity. If applicable, the charity registration number and the company registration number should be provided
- the names of the trustees and details of how they are appointed or elected, the names of any management committee and the names of the principle officers of the charity
- the principal or registered address of the charity
- the names and addresses of any other relevant organisation or persons, for example the bankers, solicitors, auditors and investment or other advisers
- details of any restriction in the way in which the charity can operate, for example, limitations on the trustees' power of investment.

A trustees' report or equivalent statement

The trustees' report is the main narrative section of the annual report. It should contain the following:

- an explanation of the objectives of the charity and a description of the way in which the charity is organised
- a review of the policies that have been adopted in order to try to achieve these objectives
- details of any significant changes in the objectives, organisation or policies since the last report.

The purpose of the above is to explain what the charity is trying to achieve and how it is going about it. The following will do this:

- a review of the development, activities and achievements of the charity during the year which should bring the reader up to date on the charity's progress and achievements
- a summary of important events which have occurred during the year and which have affected the charity or the area in which the charity works, and how the charity responded to them.

The trustees' report should contain the information that will enable the reader to judge the effectiveness of the charity in relation to its goals and objectives. It should therefore, also contain the following:

- a review of the transactions and financial position of the charity, and an explanation of the salient features of the accounts
- how the charity's funds have been applied and the significance of all material movements in the statements of financial activities
- the purposes for which the charity's assets are being held and their estimated value if materially different from that shown in the accounts

- the charity's financial position at the balance sheet date in the context of its future plans and commitments, particularly with regard to the ongoing items of expenditure, projects not yet completed and obligations not yet met
- reasons for any change in the accounting policies of the charity and the effects of such changes, as disclosed in the accounts
- the performance of any subsidiary and associated undertakings whose results are included in the consolidated accounts of the charity or in the notes to the charity's accounts
- eEffects, on present and future accounts, of any revaluations of fixed assets made during the period other than investments
- the extent to which a charity may be financially dependent upon the support of any individuals, corporations or classes of donors known to play a key role in its affairs
- the nature of any important events affecting the charity which have occurred between the date of the balance sheet and the date on which the annual report is signed
- where a charity was set up to undertake a specific project, the progress of that project. This part of the review should give cumulative figures on funding and expenditure on the project to date, with estimates of the additional costs and period of time required to complete
- that any investments held by the charity have been acquired in accordance with the powers available to the trustees
- on a fund by fund basis, confirmation, or otherwise, that the charity's assets are available and adequate to fulfil the obligations of the charity with reference to:
 - any likely delays or shortfalls on realising those assets into cash
 - any commitments or guarantees required to be disclosed.

The purpose of this part of the annual report is to help ensure that the accounts are properly interpreted. The trustees' report is also an ideal opportunity to mention items that are not shown in the accounts. Examples of these are details of voluntary help, donations in kind and other intangible income (see below) received during the accounting period.

Intangible income

Intangible income refers to assistance in the form of donated facilities, voluntary help or beneficial loan arrangements. Some intangible income could be included in the income and expenditure account if the charity would otherwise have had to buy the service. However, the value is often difficult to determine in such cases and it is more appropriate to deal with it in the notes to the accounts or the trustees' report.

The accounts

The accounts are a report in financial terms on the activities and resources of the charity. They should include the following:

- income and expenditure account
- a balance sheet

- an explanation of the accounting policies used to prepare the accounts
- details of the movement on, and position of, the various funds of the charity
- other notes that explain or expand upon the information contained in the accounting statements referred to above and that provide other useful information including an analysis of the figures in the accounts and explanations of the relationships between the figures.

The actual accounting requirements of the SORP are very detailed and as such are outside the scope of this publication. The charity's auditor should be able to assist the charity as part of the annual audit to comply fully with the accounting requirements of the SORP.

The above assumes that the legal and administrative details, the trustees' report and the accounts will form three parts of the annual report. This is not necessarily the case, for example, some or all of the legal and administrative details could be easily provided in the trustees' report or in the notes to the accounts.

The SORP places great importance on the annual report and the trustees' report is a vital element of this. The trustees' report should be seen as a way of getting the charity's message across to various stakeholders and interested parties. The accounts alone will not give the stakeholders the information they require and a well written trustees' report may well pre-empt the questions that readers of the accounts may be asking. It is much better to deal with any difficult matters rather than waiting for funders or others to ask the question.

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Chapter 11: Insurance

Aims of Section

- to highlight the types of insurance required by voluntary organisations and
- how to obtain best value when procuring the service.

Types of Insurance

Insurance should be viewed as a vital requirement as some types of insurance, such as employer's liability, are required by law. Adequate insurance cover in the following areas will enable an organisation to continue its operation even if disaster strikes.

Property Insurance

The organisation may own the property so that the need to insure is straightforward. However, many organisations rent or lease property and, in these cases, the responsibility for insurance will be specified in the agreement. The following should also be noted:

- with regard to the structure of the property, the policy should provide for what is known as 'all risks' to the building. Professional advice may be required when determining the sum for which the structure of the property is insured
- contents of the property are usually covered for most eventualities by the 'all risks' policy. However, you must confirm the cover and take out additional cover against damage to contents from specified events or accidents
- cover known as consequential loss should also be obtained. This covers any costs resulting from disruption to the activities of the organisation as the result of events such a fire. The cost of renting alternative premises would be an example of such a loss.

A register of the organisation's property, furniture and equipment should be maintained. This is not only good accounting practice but will also form the basis of any claim made. This register should be updated on a regular basis.

Employer's Liability

Employer's liability insurance relates to insurance against any liability for personal injury or illness sustained by employees as a result of their employment. This type of insurance is required by law and a copy of the certificate should be clearly displayed on the premises. Additional cover known as employer's legal indemnity insurance should also be considered. This provides cover against losses related to employment matters, such as legal expenses and compensation arising from industrial tribunal awards.

Fidelity Insurance

Fidelity insurance provides protection against any possible dishonesty. This may be particularly relevant if an organisation has employees or volunteers handling large amounts of cash.

Professional Indemnity

Professional indemnity insurance provides protection in relation to claims from the public for incorrect advice received. Many voluntary organisations provide help so, if the staff are providing advice to the public, then this type of insurance needs to be considered.

Public Liability

Public liability insurance provides cover for any injury, illness or damage to property incurred by members of the public as a result of the activities of the organisation. Members of the public include volunteers who should be made aware of the extent of cover provided for them by the organisation. It is also important to note that there are often exemptions such as people over the age of 70 working on the organisation's premises. It is up to the organisation to make volunteers aware of the insurance situation or make alternative arrangements to protect them.

Trustee Liability

Larger organisations may consider trustee liability insurance. In theory this protects trustees who may be personally liable for an organisation's losses. However, there is uncertainty about how useful this cover is and in what circumstances insurers would pay. Cover is not provided for wilful breach of trust and, in cases of honest mistakes, the trustees have not been forced to pay back the funds.

How to Obtain Insurance

A checklist of steps to obtaining adequate insurance cover is relevant here:

- list all the organisation's activities including occasional events such as annual fundraising activities
- list all property and valuable assets
- list members of staff with brief job descriptions
- list details of volunteers and describe the activities they are involved in.

The items listed above should provide enough information to receive quotations from insurance companies. Your organisation may wish to deal with the insurance companies directly or use a broker. If a broker is used, ensure that he is independent and not tied to a particular insurance company. Organisations are also advised to review their insurance needs every few years and, once this review takes place, to go through the process of receiving quotations again. Often many organisations stick

with the same company because of tradition or because it is easy to continue the premiums using an established direct debit.

Insurance cover is vital to all organisations and must be reviewed on an annual basis. This review should take into account any change in circumstances that might result in an increase or decrease in cover required.