



SOLVED: THE 7 BIGGEST ACCOUNTING CHALLENGES FOR CHARITIES

Contents

	Page no.
1. Foreword	1
2. Introduction	2
3. Complying With the Charity SORP	3
4. Managing Multiple Stakeholders	4
5. Reducing the Risk of Theft	5
6. The Importance of the Bank Reconciliation	7-8
7. Managing With Part-Time Staff	9-10
8. Slaying the Monthly Reporting Pack	11-12
9. Keeping Your Data Secure	13-14
10. Conclusion	15

Foreword

It all starts with an innocent request, “You’re an accountant, do you think that you could give us a hand?” and before you know it you have been elected at the AGM and everyone is patting you on the back. Little did you know what you what you were letting yourself in for!

Charities are a bedrock of our way of life and government is increasingly relying on them to fill in gaps in our social services and care infrastructure because there simply aren’t the budgets to fulfil all the obligations that are needed in a caring society.

So, we are conditioned to help. Everyone wants to do their bit and, as an accountant, there is an expectation that you will take on the finance role.

Much better to be someone with a financial background – and better still a qualification – than an unqualified volunteer.

But, when the retiring Treasurer begins their handover debrief, you begin to realise that there is a lot more to it than conventional business finances. However, there aren’t any proper resources, written processes or controls, and you begin to realise that this might be a bigger job than you had originally thought.

I have walked this route several times personally and I find the degree of trust that is placed in the Treasurer/Finance Director to be staggering, and it has always worried me that rogue players might prey on this vulnerability.

Introduction

This guide is designed to highlight some of the key challenges that you will face that are different to those that you will find in a normal commercial environment. Far from being easier, the accounting challenges are much more difficult than you will find in industry.

But take heart, you are not alone. Many others have faced-down these challenges and hopefully this guide will make them slightly easier for you. When deciding which ones to choose, I decided to focus on those that have the biggest impact on your charitable finance duties, but also pose the biggest risk to the charity itself.

1. Complying with the Charity SORP
2. Managing Multiple Stakeholders
3. Reducing the Risk of Theft
4. The Importance of the Bank Reconciliation
5. Managing With Part-Time Staff
6. Slaying the Monthly Reporting Pack
7. Keeping Your Data Secure

You will need proper accounting controls and a good accounting system. The Charities SORP is particularly onerous and made doubly-so because it is poorly written. Don't fall into the trap of simply passing your books over to your accountants at the year end and asking them to sort out your statutory accounts. It will cost you a fortune and isn't that hard, if you have the right software.

You will find that there are numerous calls for management information. Not just from the trustees, but the donors, the project managers and the volunteers.

Try not be a slave to Excel, but put in place proper dashboards that will save you hours of non-value-added time.

Replace hard-copy report with up-to-date dashboards, it will save hours of time.

Don't be too trusting of your colleagues or your successor. Put in place controls to reduce the risk of a bad apple taking advantage of the goodwill of others.

Make sure that the Bank Reconciliation is always up-to-date. So often this task is delegated away and then left unsupervised. Be wary of that. It is the King (or Queen!) of all financial controls and is worthy of proper attention. Two of the frauds, I have seen personally, involved an unfathomable bank reconciliation.

Part-time staff are a curse and a blessing. Try to give continuity to certain tasks and use the different work periods to reinforce a segregation of duties.

Finally, protect your data. Cyber attacks, data theft and breaches are becoming increasingly more common so be wary. If it goes wrong, all the heads will turn to you because generally alongside the website the finance system is the most important IT asset.



Paul Foden, Founder & CEO of Aedon.Accounting

Complying with the Charity SORP

The Charity SORP layers an incredibly onerous layer of additional reporting on all charities regardless of size. It is very long and very ambiguous.

At its heart is a very simple set of questions:

- What are the objectives of the charity?
- What activities or projects does it undertake to achieve those objectives?
- How does it fund them?

Unfortunately, the format for the year end accounts that are required to answer these questions are far too complicated for most lay people to understand.

Aedon.Charities can't correct the SORP, but it can make it easier to comply with and therefore reduce your year-end costs with your accountants by giving them the numbers in the format that they need them.

To deliver this simplification Aedon.Charities uses a technique which we call 3-Dimensional Accounting.

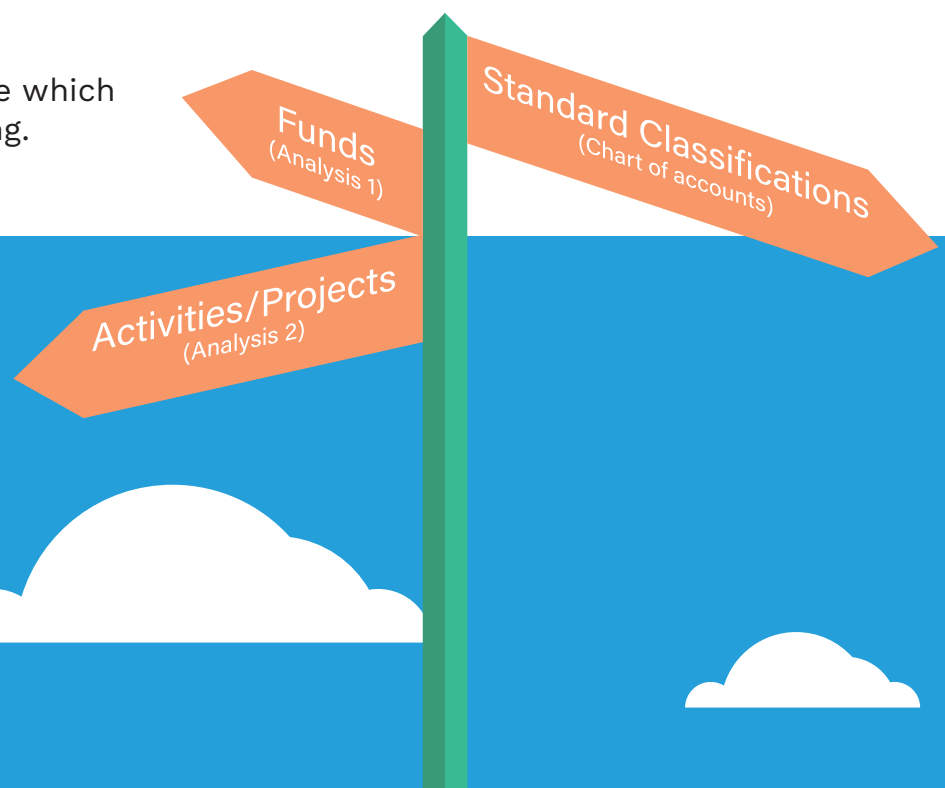
Every donation, gift or legacy is coded not only to a nominal code but also to a Fund using Dimensions.

Every piece of expenditure, however, requires three: the nominal code, the fund, and the project or activity it has been spent on. Governance and support costs are treated initially as a project before they are reallocated.

By using this technique, creating the information for the key SORP reports:

- Statement of Financial Activities
- Balances
- Cash Flow Statement

And associated notes are much easier and far less expensive than getting your accountant to do it for you.



Managing Multiple Stakeholders

Every charity finance director has multiple parties asking for information in different ways:

- Trustees
- Donors
- Management Team
- Marketeers
- Volunteers
- HMRC
- Charity Commission

All of them have different questions and different information that is required to answer them. One set of management reports doesn't really cut it, they each want their own view of the financial information that is relevant to them.

Aedon.Charities addresses this problem in two different ways. Firstly, it captures the necessary information when financial information is recorded using Dimensions.

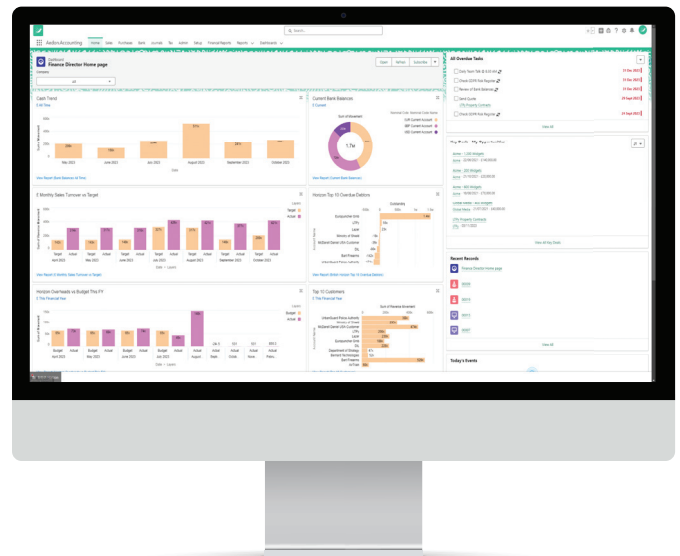
There are 10 of these and each can have 500 individual pieces of information, so there are 5,000 possible attributes that you can record – enough for the most demanding donor!

Secondly, Aedon.Charities allows you to create Management Information Dashboards that are specific to particular groups with controlled access using the

Salesforce security model to ensure that GDPR constraints are properly adhered to.

The Trustees and Management Team typically use “Top-Down” dashboards to give them an overview of the charity and see how it is performing in the round.

Donors, Volunteers and Marketing want to know about their funds or their project and are much less concerned about the big picture. They will use “Bottom-Up” dashboards to look at their specific interest.



Reducing the Risk of Theft

It is an uncomfortable truth that many charities are very vulnerable to theft. The National Fraud Authority was disbanded in 2014, but based on its last estimate fraud costs the UK Charity sector approximately £1.83 Billion per year: a huge figure equivalent to approximately 2.4% of the sector's annual income. This figure includes external fraudsters as well as internal fraud by employees and volunteers.

Apply 2.3% to your charity and see how big that number is. Most charities rely massively on the goodwill and honesty of their volunteers but turn that on its head. Imagine that you have a rogue employee or a rogue volunteer and look the vulnerabilities in your processes. You might be quite shocked by what you find.

To prevent fraud from volunteers and employees, charities can implement a range of measures, including:

Prevention Strategies

- **Clear Policies and Procedures:** Develop and communicate comprehensive fraud prevention policies and procedures. These should cover areas like financial controls, expense reimbursement, procurement, and whistleblowing.

- **Segregation of Duties:** Ensure no single individual has complete control over financial transactions. Separate responsibilities for authorizing, recording, and reviewing transactions.
- **Regular Training:** Provide regular training to staff and volunteers on fraud awareness, identifying red flags, and reporting procedures.
- **Background Checks:** Conduct background checks on potential employees and volunteers, particularly for those in financial roles.
- **Strong Internal Controls:** Implement robust financial controls, such as regular audits, reconciliation of accounts, and independent reviews of financial records.
- **Secure Systems:** Ensure financial systems and data are secure, with appropriate access controls and cybersecurity measures.
- **Whistleblower Protection:** Establish a confidential whistleblowing mechanism for reporting suspicions of fraud and protect whistleblowers from retaliation.



Detection Strategies

- **Data Analytics:** Use data analytics to identify anomalies in financial transactions, such as unusual patterns of spending or discrepancies in accounts.
- **Regular Reviews:** Conduct regular reviews of financial reports, expense claims, and procurement records to identify potential irregularities.
- **Surprise Audits:** Conduct surprise audits of financial records and processes to deter fraudulent activity and identify any weaknesses in controls.
- **External Audits:** Engage external auditors to conduct independent audits of financial statements and internal controls.

Response Strategies

- **Prompt Investigation:** Investigate all allegations of fraud promptly and thoroughly.
- **Disciplinary Action:** Take appropriate disciplinary action against individuals found guilty of fraud, which may include termination of employment or volunteering, and legal action.
- **Review and Improve Controls:** Review and strengthen internal controls to prevent similar fraud from occurring in the future.

By implementing a comprehensive fraud prevention, detection, and response program, charities can significantly reduce their risk of fraud and protect their resources.

For further information and resources, you can visit Prevent Charity Fraud: <https://preventcharityfraud.org.uk/>



The Importance of the Bank Reconciliation

The bank reconciliation process is crucial for charities for several reasons:

- 1. Fraud Detection and Prevention:** Charities, often handling public funds and donations, are particularly vulnerable to fraud. Regular bank reconciliations help identify discrepancies between internal records and bank statements, which could be indicators of fraudulent activity.
- 2. Error Identification:** Even unintentional errors in recording transactions can occur. Bank reconciliations can help identify these errors and ensure that financial records are accurate and reliable.
- 3. Accurate Financial Reporting:** Charities need to maintain accurate financial records for reporting to stakeholders, funders, and regulatory bodies. Bank reconciliations are essential for ensuring the accuracy of these reports.
- 4. Cash Flow Management:** By regularly reconciling bank statements, charities can have a clear picture of their cash flow, ensuring they have enough funds to cover expenses and meet their obligations.
- 5. Internal Control:** Bank reconciliation is an important part of a charity's internal control system. It helps ensure that financial processes are working effectively and that financial resources are being used appropriately.
- 6. Compliance:** Many regulatory bodies, like the Charity Commission in the UK, require charities to maintain accurate financial records and conduct regular bank reconciliations as part of their compliance obligations.
- 7. Maintaining Donor Confidence:** Demonstrating financial transparency and accountability through regular bank reconciliations can help maintain donor confidence and trust in the charity.





Specifically for charities, bank reconciliations can also help:

- **Identify unrecorded donations or grants:** Donations made directly to the bank account may not have been recorded in the charity's accounting system.
- **Track restricted funds:** Charities often receive funds designated for specific purposes. Bank reconciliations can help track these restricted funds and ensure they are used appropriately.
- **Monitor fundraising income:** Bank reconciliations can help ensure that all fundraising income is accounted for and accurately reflected in the financial records.

Overall, the bank reconciliation process is an essential tool for ensuring financial health, accountability, and transparency in charities. By regularly reconciling bank statements, charities can safeguard their funds, maintain accurate financial records, and uphold the trust of their stakeholders.

Aedon.Accounting supports an effective and efficient bank reconciliation process in several important ways:

- An automated bank feed five times per day to ensure it is always up to date
- Three types of matching:
 - **Bank rules** – applying Boolean logic to identify close matches
 - **Open Invoices** – Payments or receipts are matched unpaid donations or purchase invoices
 - **Existing Payments** – Payments or receipts are matched to previously recorded payments such as credit cards, cheques or Stripe payments
- Bulk matching of up to 100 items at a time (provided they comply with the matching requirements)
- Clear audit trail from the bank statement to the Payment to the Invoice or Donation.

Managing with Part-Time Staff

While part-time finance staff can be a cost-effective solution for charities, there are certain risks associated with this arrangement:

- 1. Continuity and Consistency:** Part-time staff may not be available consistently, leading to delays in financial processes, reporting, and decision-making. This can be particularly problematic during busy periods or when urgent financial matters arise.
- 2. Knowledge Gaps:** Part-time staff may not have the same depth of knowledge and experience as full-time professionals. This could lead to errors in financial management, missed opportunities for cost savings, or inadequate financial controls.
- 3. Communication and Collaboration:** Part-time staff may have limited interaction with other team members, leading to communication breakdowns and potential misunderstandings. This can hinder collaboration and negatively impact overall financial management.
- 4. Oversight and Supervision:** Part-time staff may require additional oversight and supervision, especially if they are working remotely or have limited experience. This can create an extra burden for managers and other team members.
- 5. Fraud Risk:** While not exclusive to part-time staff, the lack of continuous oversight and potential gaps in knowledge could increase the risk of financial irregularities or fraud.
- 6. Turnover:** Part-time positions may be less attractive for experienced finance professionals seeking long-term career development. This could lead to higher turnover rates and the need for frequent recruitment and training.
- 7. Limited Capacity:** Part-time staff may not have the capacity to handle complex financial tasks or manage large volumes of work, potentially leading to delays or outsourcing of certain activities.



However, these risks can be mitigated through:

Clear Roles and Responsibilities:

Clearly define the roles and responsibilities of part-time finance staff, ensuring they have the necessary skills and experience to fulfil their duties.

Strong Communication Channels:

Establish effective communication channels to ensure regular interaction and collaboration between part-time staff, other team members, and management.

Regular Training and Development:

Provide ongoing training and development opportunities to ensure part-time staff stay up to date with financial regulations and best practices.

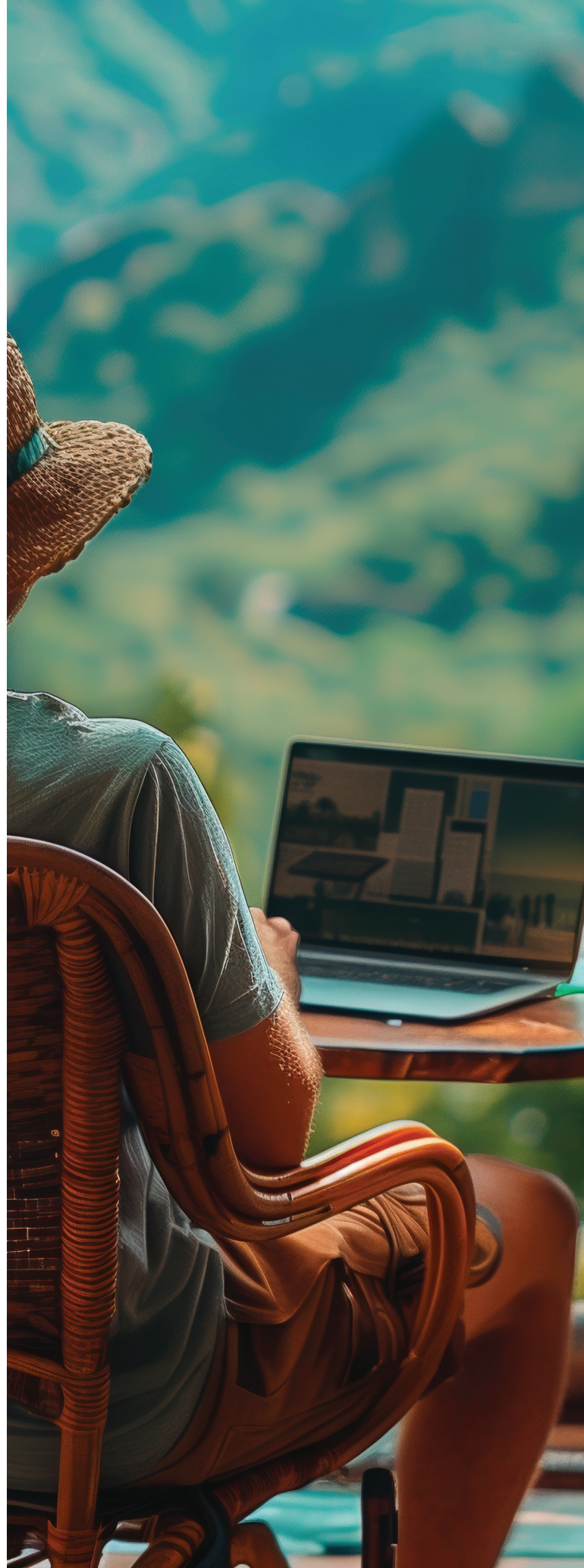
Robust Internal Controls:

Implement strong internal controls, such as segregation of duties, regular reviews, and independent audits, to mitigate the risk of errors and fraud.

Regular Performance Reviews:

Conduct regular performance reviews to assess the effectiveness of part-time staff and identify any areas for improvement.

By carefully considering the risks and implementing appropriate measures, you can manage-down the potential problems. But be vigilant!



Slaying the Monthly Reporting Pack

Replacing a Monthly Reporting Pack (MRP) with reports and dashboards can streamline information delivery, enhance decision-making, and improve overall efficiency. So there is a big pay-off, but your need to implement a replacement in a considered way. Here's a comprehensive approach:

1. Identify Key Metrics and KPIs:

- Review the MMIP: Carefully analyse the existing MRP to determine the most critical metrics, key performance indicators, and insights used by the different users.
- Gather Stakeholder Input: Consult with key stakeholders to understand their specific reporting needs and the information they rely on for decision-making. You may be very surprised at what they find useful and important, and it may be very different from your own views.
- Prioritize Information: Based on the analysis and stakeholder feedback, prioritize the most essential data points and insights that should be included in the new reports and dashboards.

2. Design Reports and Dashboards:

- Salesforce Reports & Dashboards: Salesforce has a very comprehensive range of dashboard “components” with different ways of visualising data: graphs, charts, metric and lists all have their place. Design different dashboards for different user groups and consider how using filters to reduce the overall number of dashboards.
- Create Clear and Concise Reports: Design reports that focus on the prioritized metrics and KPIs. Use clear visuals like charts, graphs, and tables to present data in an easily digestible format.

- Use Interactive Dashboards: Salesforce dashboards are interactive so allow users to explore data dynamically, drill down into details, and filter information based on their specific needs.
- Automate Data Collection: Automate data collection and reporting processes to ensure timely and accurate information delivery. Integrate data sources directly into the reporting tools to minimize manual effort.

3. Implement and Communicate:

- Train Users: Provide comprehensive training to all users on how to access, navigate, and interpret the new reports and dashboards.
- Establish a Feedback Loop: Encourage users to provide feedback on the new reporting system to identify areas for improvement and ensure it meets their needs effectively.
- Continuously Monitor and Update: Regularly monitor the reports and dashboards to ensure data accuracy, relevance, and effectiveness. Update them as needed to reflect changes in business goals or priorities.



Additional Considerations

- **Data Security:** Implement robust data security measures to protect sensitive financial information and ensure compliance with relevant regulations.
- **Accessibility:** Ensure the reports and dashboards are accessible to all users, including those with disabilities.
- **Mobile Optimisation:** Consider optimising reports and dashboards for mobile devices to enable access from anywhere.
- **Enhanced Collaboration:** Interactive dashboards enable better collaboration among team members and departments by providing a shared view of performance data.
- **Reduced Manual Effort:** Automation of data collection and reporting saves time and resources, allowing staff to focus on higher-value tasks.
- **Cost Savings:** Replacing printed MMIPs with digital reports and dashboards can significantly reduce printing and distribution costs.

Benefits of Using Reports and Dashboards:

- **Real-time Insights:** Dashboards provide real-time access to key metrics, allowing for faster decision-making and proactive course correction.
- **Improved Visibility:** Reports and dashboards make information more accessible and transparent, fostering a data-driven culture within the organisation.

By following these steps, charities can successfully replace their Monthly Reporting Pack with reports and dashboards, unlocking a wealth of benefits and empowering data-driven decision-making and reducing costs.



Keeping Your Data Secure

Aedon.Charities is built natively on Salesforce so charities can leverage Salesforce's robust features and tools to ensure their data remains secure and compliant with GDPR.

1. Data Governance and Access Control:

- **Role Hierarchy:** Utilize Salesforce's role hierarchy to establish a clear structure for data access. Assign roles based on responsibilities, ensuring individuals only have access to data necessary for their tasks.
- **Profile Permissions:** Define granular profile permissions to control what actions users can perform within Salesforce, such as viewing, editing, or deleting records.
- **Sharing Rules:** Implement sharing rules to grant access to specific records based on criteria like the user's role, team, or the record's owner.
- **Field-Level Security:** Apply field-level security to restrict access to sensitive fields within objects, ensuring only authorised users can view or modify them.

2. Data Encryption:

- **Shield Platform Encryption:** Employ Salesforce Shield Platform Encryption to encrypt sensitive data at rest, such as Personally Identifiable Information (PII), to protect it from unauthorized access.
- **Data Masking:** Utilise data masking techniques to hide or replace sensitive data with non-sensitive values for development and testing environments.

3. Data Minimization and Retention:

- **Data Retention Policies:** Define clear data retention policies outlining how long different types of data should

be stored within Salesforce. Delete or anonymise data that is no longer needed.

- **Data Minimisation:** Collect and store only the minimum amount of personal data necessary for specific purposes. Avoid collecting excessive or unnecessary data.

4. Consent Management:

- **Individual Object:** Create a custom object within Salesforce to track and manage individual consents for data processing.
- **Consent Capture Mechanisms:** Implement consent capture mechanisms on forms, websites, or other channels to obtain explicit consent from individuals before collecting or processing their data.
- **Consent History Tracking:** Maintain a clear record of consent history, including the date, purpose, and method of consent collection.





5. Security Audits and Monitoring:

- **Regular Audits:** Conduct regular security audits of Salesforce configurations, user permissions, and data access logs to identify and address potential vulnerabilities.
- **Event Monitoring:** Implement event monitoring to track suspicious activities or unauthorised access attempts within Salesforce.

6. GDPR Compliance Tools:

- **Salesforce Shield:** Utilise Salesforce Shield's suite of security tools, including Platform Encryption, Event Monitoring, and Field Audit Trail, to enhance data protection and compliance.
- **GDPR Compliance AppExchange Apps:** Explore AppExchange apps designed specifically for GDPR compliance, offering features like consent management, data subject access requests, and data anonymisation.

7. Training and Awareness:

- **Regular Training:** Provide regular training to staff and volunteers on GDPR principles, data protection best practices, and Salesforce security features.
- **Awareness Campaigns:** Raise awareness about data privacy and security within the organisation through newsletters, presentations, and workshops.

8. Data Breach Response Plan:

- **Develop a Plan:** Create a comprehensive data breach response plan outlining the steps to be taken in the event of a data breach, including notification procedures, communication strategies, and remediation measures.

Conclusion

Being the treasurer or finance director of a charity is a tough gig. But somebody has to do it and hopefully the satisfaction that you get from assisting your charity and helping others will outweigh the effort required to fulfil your duties.

Just like any other finance role it pays to be well organised and prescient. Looking ahead and trying to spot the icebergs is such an important part of the role. A good finance director is a rock in any organisation and is expected to have a wise opinion in all conversations. Living up to those expectations is your challenge.

Like what you have read?

You can always contact us to pick our brains. We have a wealth of resources on our website, or call or email to arrange a consultation, and see how Aedon.Accounting can help you in your role as charity treasurer or finance director.



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