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Effective financial reporting that empowers decision making and delivery of strategy

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Improving the pace of financial reporting

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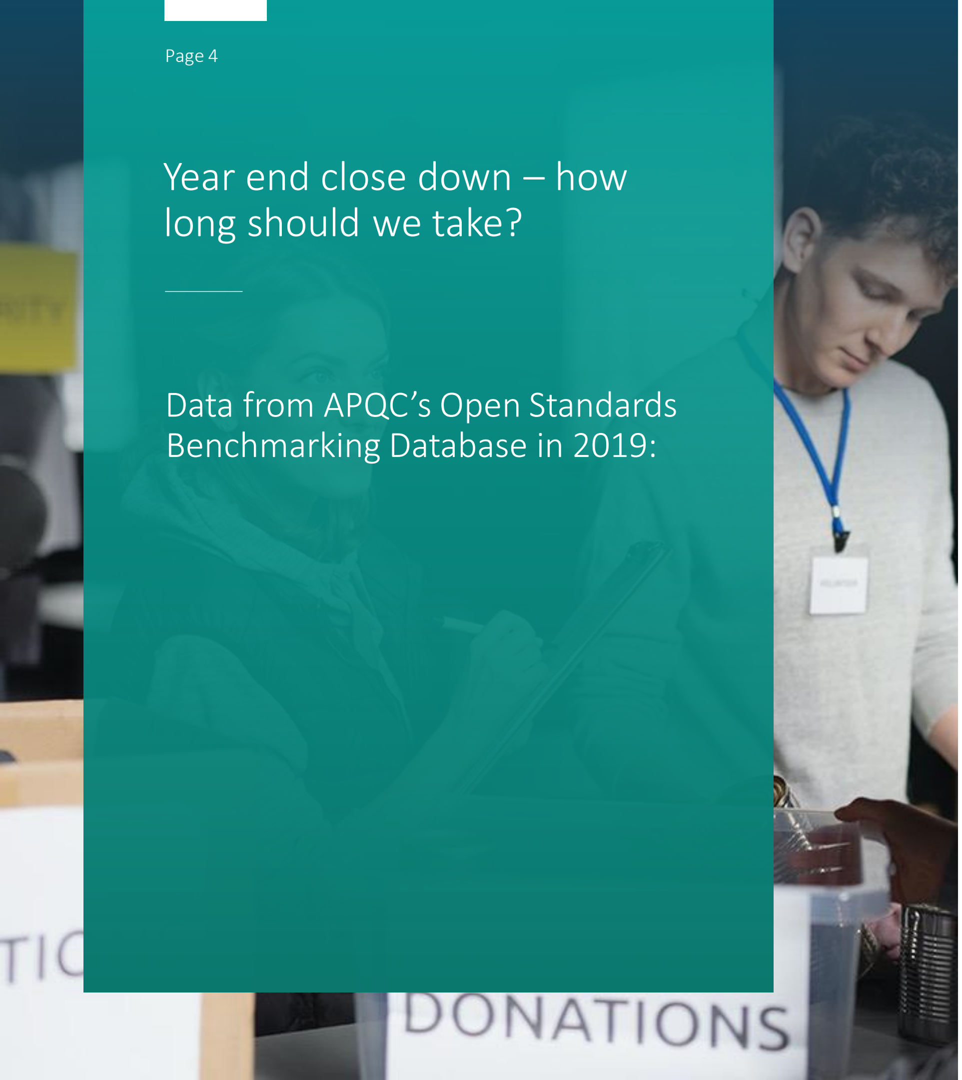
Year end close down – how long should we take?

Data from APQC's Open Standards Benchmarking Database in 2019:

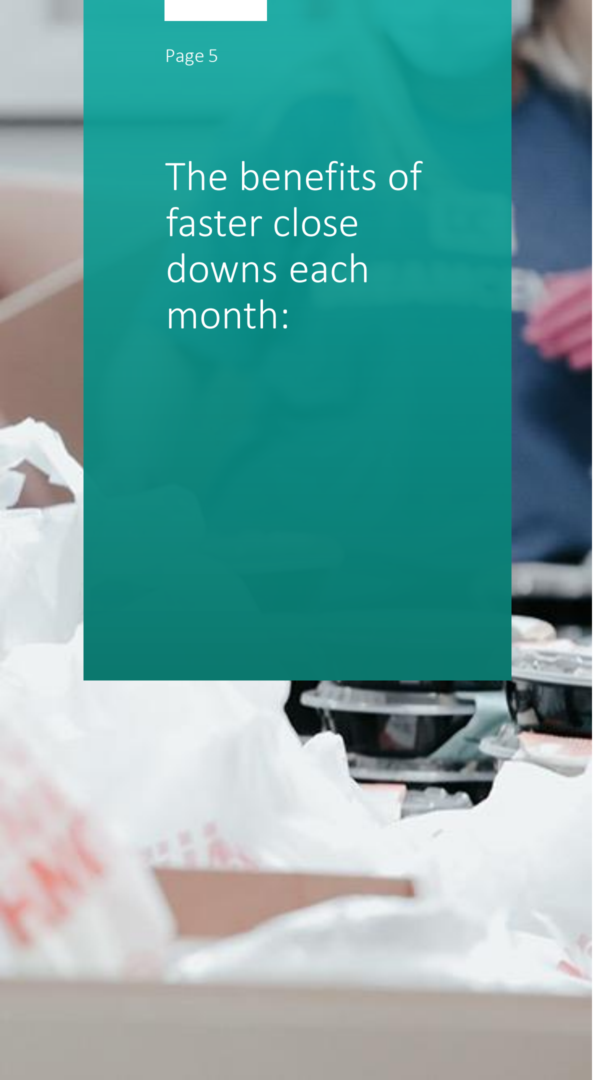


The median average for year end close down in the data from 2019 shows a start to finish time of around 25 days.

Many are significantly slower meaning the bottom 25% of respondents took 45 days **or more**

The fastest – took **just 15 days or less** to close the system and complete the process.

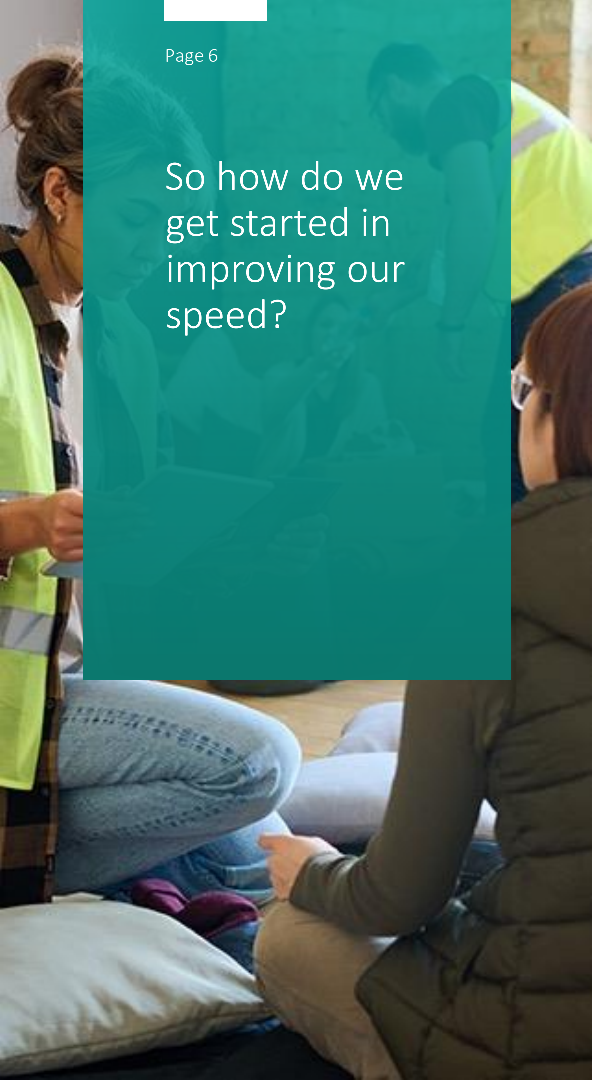
- Where do you sit on this scale?
- Does being a charity make it more difficult? Areas such as legacies and income recognition can be more complex.
- This data is for year end – month end process should be simpler



The benefits of faster close downs each month:

Why should we?

- More time to verify and ensure financial accuracy of key data
- A slow process takes away valuable finance time that could be spent on charitable activities or value added work
- Faster year end figures equals faster decision making – if the numbers highlight issues then teams are quicker to react and take action
- Improved process means year end actions such as audit can take place earlier and deadlines are easier to meet
- Improved financial planning for the year ahead
- Quicker decision making and more accurate reporting at year end means results of actions taken can be seen much earlier – even by the next month
- Less stress and more time for the finance team



So how do we get started in improving our speed?

Key elements of fast financial reporting:

- Planning and checklists
- Work done in advance
- Communication
- Setting clear responsibilities
- Knowing the hard parts

How many days could we shave off on our average close down?
Improvement is incremental but leads to good results

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Planning and Checklists

- Create a checklist or closing document – write down all the key tasks and make sure you note the order in which they need completing
- Include all the pre-close, closing, and post closing activities
- Next step is to assign responsibilities and ensure that each member of the team has clear direction for their tasks – and someone else to report to once complete
- Make the checklist or planning document available to all – especially other key departments
- Build in contingencies where necessary – but be careful these are not just assumed as the deadline. They are for unexpected difficulties – not extra time to complete the normal process
- Ensure the document is clear on who the stakeholders and key decision makers are in each area so that the team can get to work without uncertainty or delay
- Assess the quality of your data – do we have everything we need?
- Stick to it – refine and update the document each year and add in dates tasks completed so that any delays can be avoided or future improvements made.

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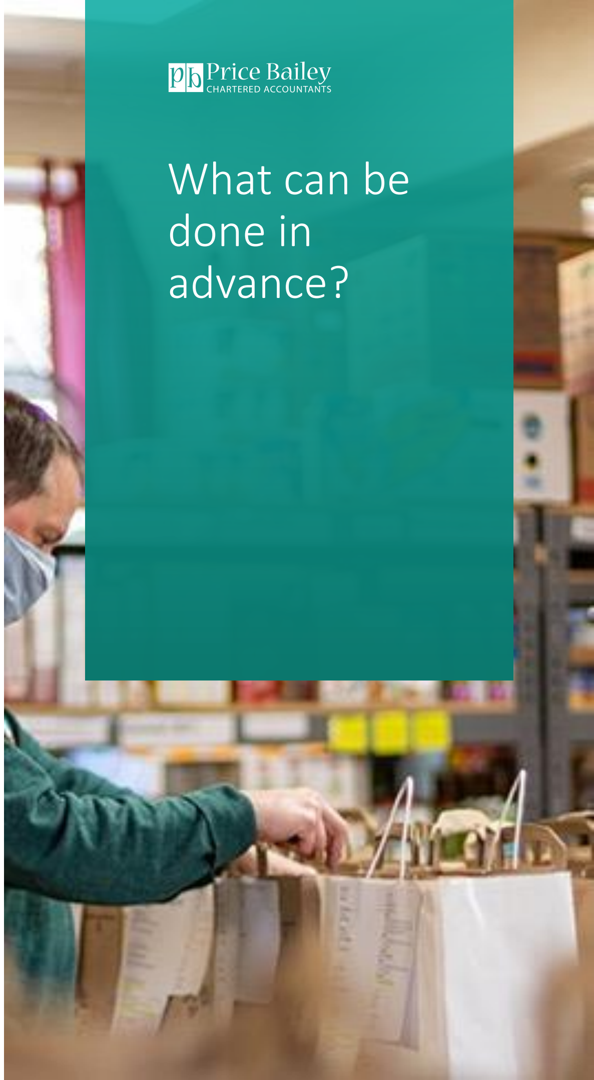
What can be done in advance?

- Reconciliations matter – don’t just wait until year end! Key balance sheet figures should be reconciled at least quarterly but monthly reconciliations mean far quick year end close to the balance.
- Beware system limitations – many systems (in particular older systems) cannot produce key reports after the event. Meaning period end reports for reconciliation need to be printed at the time – diarise it if needed. We see many examples related to CRM based systems handling rental income, membership income and deferred income calculations.
- Key accounting changes are often overlooked – plan with your auditors and advisers in advance. Get in touch and ask about any important changes coming soon. **FRS102 and SORP will be changing for 2026**
- Flagging significant transactions in advance – speak to your internal teams to understand any planned large or period end transactions. Treatment can often be decided in advance
- Journal adjustments should be checked regularly – make sure they have been reviewed at each close down period to flag anything that may cause a deviation or unexpected reconciliation error.
- Restricted fund balances can be highlighted during the financial year with the finance team gaining an understanding from budget holders on what the expected year end position will be and monitoring each month end position. Restricted funds can often cause a late headache in allocating across the charity projects



Communication is vital

- Set meetings with key budget holders and stakeholders
- Explain deadlines and expectations
- Agree treatment of any unexpected items or commitments
- Ensure purchase orders and staff expenses are up to date

Good communication is the most important factor in ensuring your planning does not go to waste!

Set clear responsibilities

- Ensure your planning checklist sets responsibilities, deadlines and overall reporting heads
- Make sure tasks are split into clear and easy to understand tasks
- Understand who the stakeholders are – and what they need from the team

We often see month end procedures with general headings such as ‘accruals’ or ‘income reconciliation’ but these lack detail and junior members of the team can be left without clear instructions.

A written procedures manual is best practice for all entities but can also be used to back up the close down process and allocate key tasks

Knowing the hard parts...

In every organization there are **more complex areas** – knowing what these are and how to tackle them is fundamental for finance teams. Examples include:

Legacies – understanding the SORP and your own policies. Completeness and cut off can be major issues.

Deferred income – what is the quality of our data? Can we calculate an accurate balance? Could we simplify to save time later e.g all memberships renew on one date

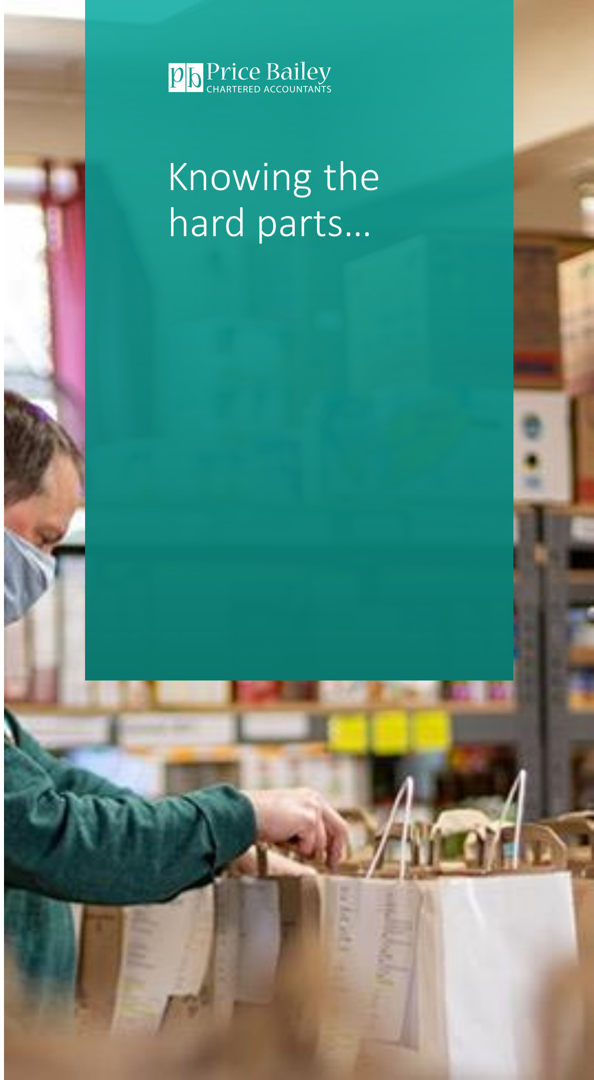
Grants – Clear need to understand the SORP and any performance conditions. Who is in control of the grant and if we are deferring – why?

Contracts – In charities these are recognized to extent that work is complete and delivered. Do we have a clear estimation technique for this? Do we need help from other teams within the organisation? What can be done in advance?

Commitments under contracts – e.g building work and capital spend. Do we understand what we have received by year end – what to accrue?

Staff expenses – a common issue. Set a year end cut off date and stick to it

External providers – have we chased in year end certificates, and balances such as investment schedules?



Conclusion

- It is possible to speed up the process – and reap benefits
- Planning can be a useful tool
- Getting the team and stakeholders on board is vital
- So much can be done in advance – reconciliations are key
- No excuses – behaviour changes are critical to make this work across the team

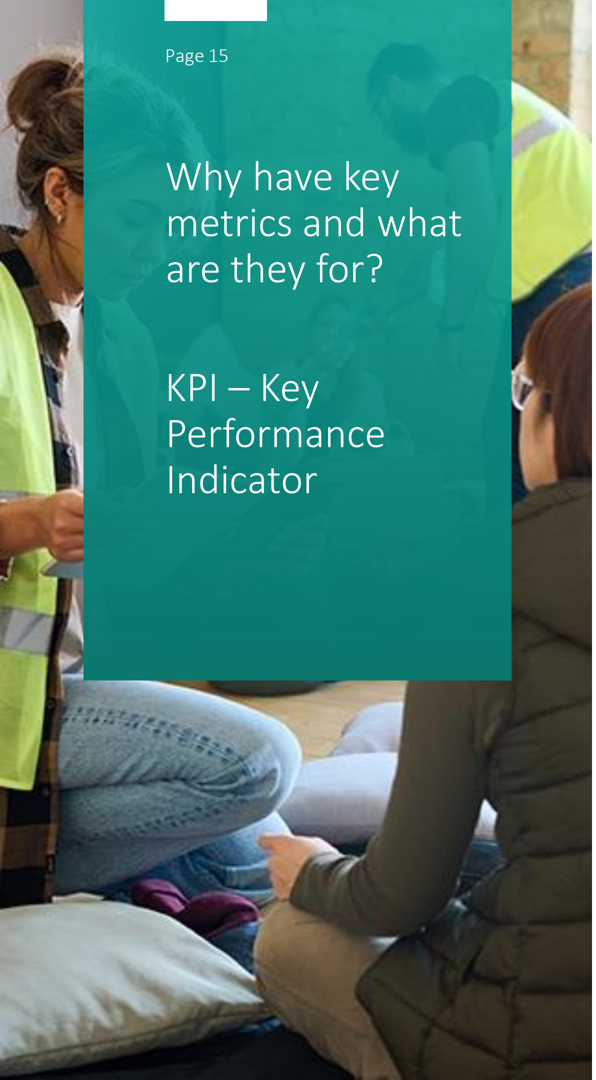
How much can you improve?

Linking metrics to strategy

Financial management - Basics

CC12 ‘Managing a charity’s finances: planning, managing difficulties and insolvency’

- Requires charities to produce budgets at least annually
- During uncertain times more regular updates required
- Shouldn’t only consider income/expenditure
- Regular monitoring required – variance analysis
- Prevention better than cure!



Why have key metrics and what are they for?

KPI – Key Performance Indicator

- KPI’s give you data on effectiveness and charitable impact
- KPI’s identify the strategic objectives and measure progress against them
- KPIs help identify challenges and opportunities for the charity – such as excess capacity or capital available to invest
- KPIs make strategic planning more concrete and data-driven.
- KPI’s make departments and performance more accountable and transparent – even to funders and supporters
- KPI’s can assist teams in working together to achieve common results and have more integrated plans
- KPI’s can simplify complex strategies and help the team understand clear goals

How do we select the right metrics for us?

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- Monthly reporting should build on strategic review, interpretation and actions to stay on track. Which financial ratios or metrics do you use in your charity?
- Many charities use standard metrics even if not really relevant to how the charity raises or spends its funds – e.g debtor days, profit margins, current ratio or stock ratio.
- Key Performance Indicators's (KPI) should be linked to overall strategic goals or at the very least some relevant aims of the charity.
- For example you may understand that your organisation is donor driven and that demonstrating impact through KPI – such as the number of grants given or beneficiaries supported.
- You may feel that fundraising is the most important income stream and look to monitor performance through KPI's like donor retention and fundraising returns on investment.
- Overall – you need to gain an understanding of what matters for your charity and what your strategic goals are
- *Fast closing of the system feeds these metrics, live data and swift decision making leads to strategic success.*

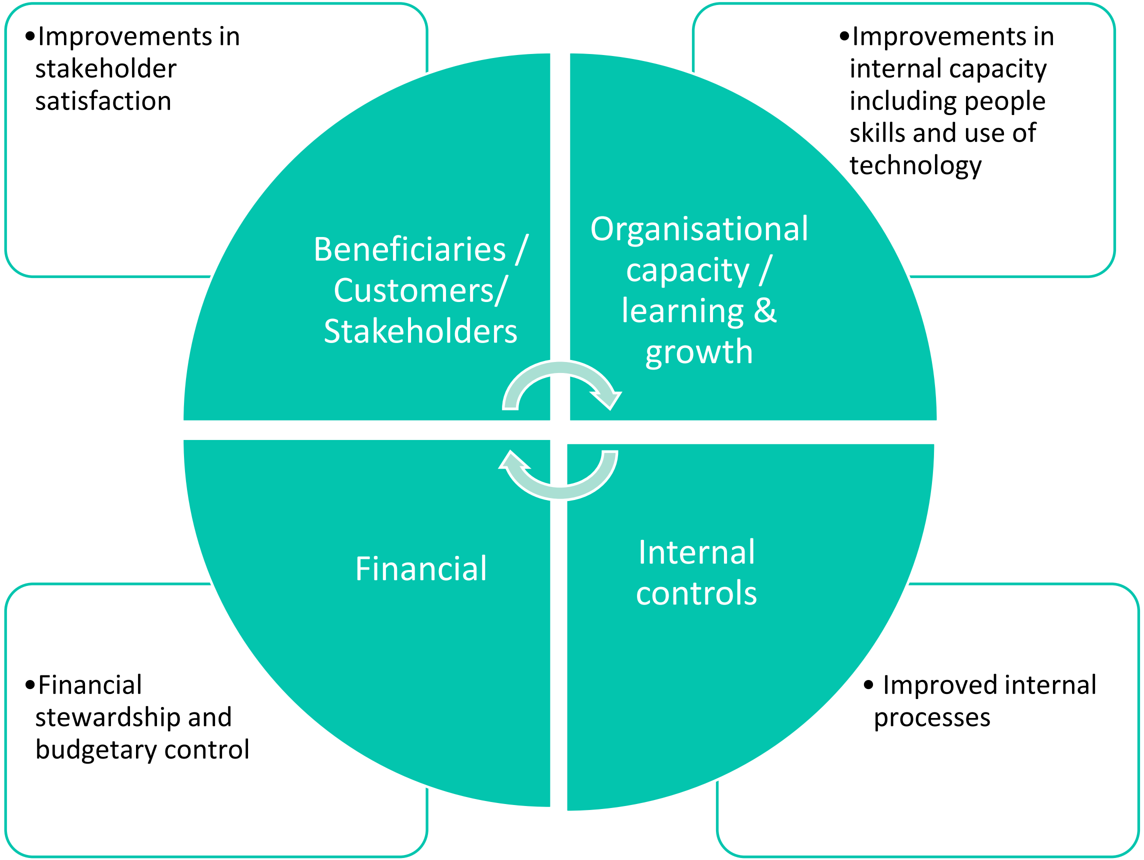
Where do we start when looking at our charity goals?

- Start by considering key factors in success for the charity. There may be an overall strategy document or there may be impact or activity based objectives that drive the charity.
- Setting clear strategic targets is the first step
- KPI's can be linked to multiple objectives – a variety of targets or success factors may be used to define organizational progress.
- All key stakeholders should be involved at the start of this process – Finance alone cannot define all the performance measures without good information and input from other teams.
- Even without a strategy document – management can start by considering what a successful year for the charity would be – income generation, projects completed, beneficiaries supported – what would a great year look like?
- *Always have something – too often we see charities producing financial reporting with no key indicators of performance and no assessment of performance – Trustees and management have nothing to make decisions with…*

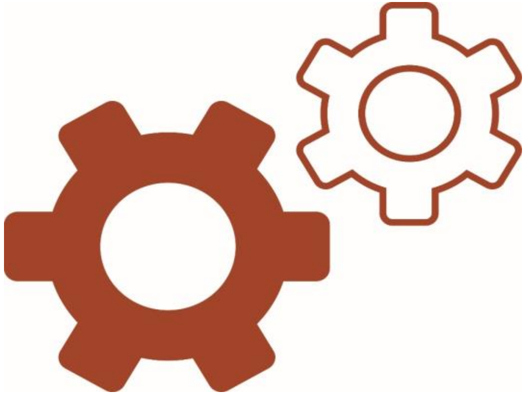
Balanced scorecard – measure, monitor, change…

Steps to success:

1. Assessment
2. Strategy
3. Objectives
4. Strategy map
5. Measures and targets
6. Strategic initiatives
7. Performance analysis
8. Alignment
9. Evaluation



- Beneficiaries
- Individual donors
- Funders - Trusts, Foundations, Corporates
- Institutional donors
- Media and public
- Trustees
- Staff
- Regulators



Examples of metrics and charity objectives

- Surplus or direct profit margin – are you covering your costs of delivery on contracts and grants? Total cost recovery (including support costs) is another metric to consider
- Fundraising efficiency – how do you compare with your peers? What's the return on the costs
- Income diversification – measuring donations/grants versus other earnt income streams. Helps focus on risk of dependency on one funder or one type of income
- Direct charitable costs versus support costs and administration – ensures understanding of back office and that it is appropriate and relevant – being too lean is often an issue
- Staff cost over total costs – are you comparable with your peers and where staff costs are high other metrics like staff wellbeing, vacancy levels, sickness and turnover may need to be reported to keep track on underlying staff issues
- Cash management – looking at current assets versus current liabilities and of course cash flow. Liquidity cover which considers cash over average monthly expenditure – highlights drawdown on reserves
- Re debtor and creditor days relevant for you? Indicate cash issues starting to loom if trends are increasing and can also help indicate if there are delivery issues
- Reserves cover and movement in unrestricted funds or free reserves tracker

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A good metric?

Measurability – is it based on data rather than assumptions or opinions?

Relevant - to the specified or desired outcome, see the examples previously

Specific – Make sure they are easily understood by everyone, and clear in what they calculate and how

Actionable – Can they be influenced by you and your team

Achievable – Be realistic even if aiming high

Finally – set benchmarks – this could be data from other similar organisations or previous data. You can then consider the target of your KPI – do you wish to meet or exceed the benchmark or sector standard?

A good metric?

What can you measure?

- Inputs – data e.g. staff time, expenditure. Tends to be numerical/quantity
- Outputs – production/services offered e.g. advice, publications, visits, training courses. Tends to be numerical/quantity
- Outcomes – what has been achieved or consequence. Tends to be Quality measures
- Impact – longer term and broader effects which show a marked effect or influence. Use of baseline data/history to be able to show changes

How can you measure?

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Quantitative

– statistical/mathematical/numerical and easier to collect

Qualitative

– perceptions/feelings/experiences and more subjective

How can you measure?

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How to collect qualitative data:

- Surveys/questionnaires – larger data sets and need to look at how will be interpreted
- Interviews – more time consuming but informative?
- Records and notes – what to extract and how and by whom?
- Focus groups/discussions – help with pilots/explore ideas, gain more in - depth feedback
- Observation – from individuals like practitioner/teachers/ employers or checking results on behaviours through observation or even collecting data

Key thoughts to recap:

When choosing KPI ensure you know

- how reliable
- how expensive or easy to collect
- how will it aid decisions or management – why do we need to know?
- involve others in the process/design to ensure you have chosen the best measures

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Key elements of good management reporting for Charities

Financial management definition

Efficient and effective management of funds so as to deliver objectives

Requires:

Planning → Strategic Management

Organising

Monitoring

Control → Internal Financial Controls

….of your financial affairs and resources

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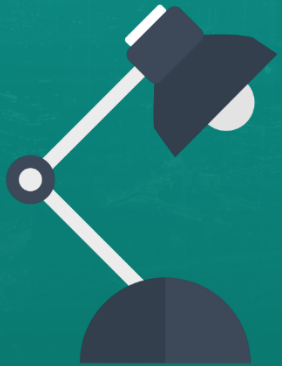
Effective reporting:

Facilitate transparency and accountability to inform decisions

Necessary skills and knowledge – need expert advice?



- LEARN – what is working, needs fixing or needs improving and developing. Better or worse than planned? Do we know why?
- PERFORMANCE – challenge and exchange information with the staff, warning of problem areas and focus on key issues
- ATTENTION – on time and issues which matter most
- BALANCED – considers alternatives, highlights risks and makes recommendations

How often do your report to board and management?

Best practice is that they should be prepared at least quarterly. Some charities prefer monthly.

The key is to use the information to enable you to make better business decisions, and allow Trustees and key management to understand performance and react accordingly.

So much depends on understanding the nature and scale of your charity – for example Grant making charities with limited transactions and quarterly investment income might suit quarterly best.

Regular data analysis is key to effective reporting....and to the ability to react quickly

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What do you need to know?

Many management accounts simply include a basic SOFA breakdown and result for the period. This lacks context and does not aid strategy or decision making.

Do you include commentary? Even the simplest information requires *context* to understand it properly.

Linking back to the last section on metrics – what are the key drivers of the Charity?

What makes a good set of management accounts

How should they look?

Key features of effective management accounts:

Key performance Indicators – as discussed earlier, a set of key metrics with measurable and understandable data. Ensure target data is also contained alongside each so Trustees know what the goal is.

SOFA result plus comparatives and forecast – Included as the core of most management accounts but often lacking in comparability against the year end financial statements or missing data on the bottom line – reserves. Does your management data miss out large variables like investment gains/losses or accruals – even if they could be significant to the charity activities?

What makes a good set of management accounts

How should they look?

Key features of effective management accounts:

Balance Sheet – often forgotten or left out of many management accounts. A simple balance sheet could contain several triggers for conversation or investigation such as high debtors or creditors balances. What is the net assets position?

Cash and funds – Again there is often little analysis of the cash position in many charities other than the balance itself. What is our working capital target? Where do we expect to be? How much cash is tied up in restricted funds versus unrestricted funds?

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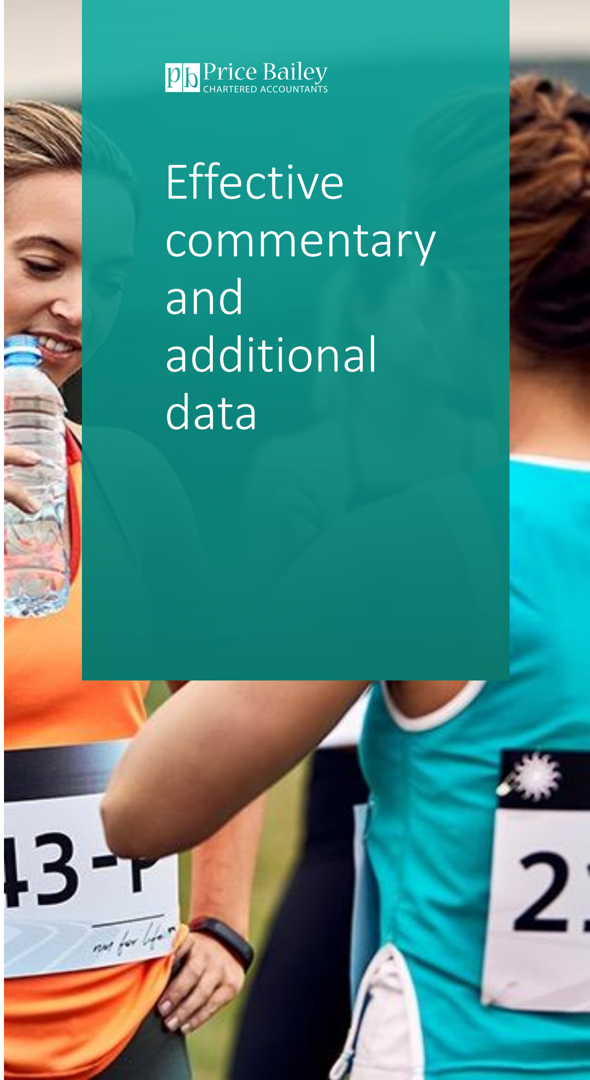
Effective commentary and additional data

Effective commentary for charities should allow Trustees to make informed decisions – it needs to add context to the key parts of the management accounts above to avoid 'knee jerk' reactions or misunderstanding.

- Contracts and projects – does your data look at what progress is on contracts or grant projects with conditions? How much income is earnt already – and what is to come?
- Future delivery and timing – does your data consider the flow and timing of income in the charity – there can be some months that look out of line with expectations if projects are not started (no costs yet) or income not yet received.
- Income risk – is there context on income received versus budget and any changes in expectations? Are there important changes or cancellations that will effect the final year results? Do we need to reforecast?
- Performance issues – any staff or project issues that need to be raised to Trustees – that might affect the charity results?



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Reserves

Does your financial reporting consider the current free reserves position?

Often the management reporting lacks a balance sheet or what would be the bottom line of a statutory accounts SOFA.

Trustees need to know quickly if their financial reserves are being eaten away over time

What is the month end unrestricted funds balance – net of fixed assets?

Its important to see the short term results but also have the reserves figures to consider in longer term context and effect.

So we finish with an example of how poor management reporting can slow down decision making and concentrate on wrong areas….

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Looking at the right metrics –example from a charity liquidation

Reserves extract from 31 March 2017

- ……. reserves are £1 million, being approximately half a year hospice expenditure. The trustees consider that this level will ensure that, in the event of a significant drop in funding, they will be able to continue the charity’s current activities whilst ways are sought to find additional funds. Of this amount, restricted income reserves are £20,834, details of which are given in note 23 to the accounts. There are no specifically designated funds at year end. Funds available and received in future will be used for ongoing activities, including where necessary capital additions of equipment. Or if incoming resources exceed outgoing, used to bolster the existing financial position and act as reserves for use in years to come.

Summary Income and expenditure:

Income £1.8M

Expenditure £2.1M

Deficit £0.3M

Expected income anticipated to be the same from media comments for the following year

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Looking at the right metrics –example from a charity liquidation

Balance sheet

Fixed assets	£1.6M
Investments	£0.7M
Net current assets	£0.3M
Net assets	**£2.6M**

Unrestricted funds £2.6M

Restricted Funds £0.02M

Working Capital? Reserves less fixed assets less large legacies receivable? – circa £700K ish? Monitoring the right metrics is important and in this example they simply monitored total income and total balance sheet– not working capital or cashflow timing or income risks

Two years of deficits at 2017 level? Liquidation in Jan 2019

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