



Learning from OSCR's inquiries: Financial Management



September 2023

Introduction

OSCR carries out inquiries into charities in response to concerns that are identified from a variety of sources, for example:

- The public
- Charity staff
- The media
- Annual reports and accounts received by OSCR

The issues that we look at are varied and sometimes complex, and an inquiry into an individual charity can involve an examination of several issues at the same time.

Concerns that we receive are risk assessed to allow us to consider:

- whether or not the issues relate to risks in our risk framework
- the credibility of the evidence available
- the level of threat to the charity, its assets or the people who benefit from it.

The outcome of the risk assessment helps us to decide what to do next. Where the assessment indicates that there are risks that are for us to deal with and there is a threat that needs to be addressed, we will open an inquiry into the charity to help us understand what is happening.

Reflecting on some of the inquiry cases that we have dealt with in the first quarter of 2023–24, we have identified lessons that other charities, and those who work with charities, may find helpful to understand in improving their governance and avoiding potential problems.

In this report, the issues and resulting learning lessons relate to **financial management**. Every charity needs money to deliver its charitable activities, and poor financial management can stop a charity from achieving its purposes as well as having more serious consequences.

Relevant duties of charity trustees

Charity trustees are the people in overall control and management of a charity. They may be called directors, management committee members or committee members, but the law considers them to be 'charity trustees'.

They are responsible for ensuring the charity's money is kept safe and must monitor how money is used to ensure the charity is operating within its financial means.

Charity trustees have a legal duty to act with the care and diligence that it is reasonable to expect of a person who is managing the affairs of another person. This is a high duty of care that charity trustees must meet in their day to day running of the charity – for both short and long term benefit to the charity and its beneficiaries. By practising good financial management the trustees will help to ensure that they are fulfilling this legal duty.

Issues recently examined

In some of our recent inquiry cases, financial management issues were a significant part of our inquiries. The issues included:

- **Lack of clarity:** Charities were not transparent about their financial controls and procedures which can result in concerns about how a charity's money is being used
- **Poor understanding of how decisions were made:** Not all charity trustees have a clear understanding of how the charity's finances are managed, and by who. This can lead to concerns and suspicions that some financial transactions are inappropriate.
- **Trustees keeping information to themselves:** In some charities, finances were being handled by an individual or small group and there was a reluctance to share information with fellow charity trustees
- **Decision making that was not collective:** We received concerns over decisions taken by an individual trustee about how the charity's money was spent

Lessons for charities

We have identified some lessons to share with all charities and those who work with them to support good financial governance:

1. **Keep financial controls simple, easily understood and effectively used.**

Complex procedures have a greater chance of not being used or being used incorrectly.

2. Be transparent with everyone responsible for the charity.

Being clear and open about how the finances are dealt with can support confidence and trust and help to avoid concerns about how the charity's money is being used.

3. Have procedures to cover your financial decisions.

Financial decisions will include:

- Whether to continue with current activities and/or whether to start new activities
- The purchase of goods or services that the charity requires for its work, including which suppliers to use
- The employment of staff and the salaries paid to them.

The procedures in place should cover, among other things:

- Who has authority to make the relevant decision, and why
- How decision makers are monitored
- Whether a decision or financial transaction requires approval by more than one person because it is over a certain amount
- The authorisation required for payments made from a charity's bank account – best practice would be that two people authorise such payments.


4. Think about all relevant factors when making choices about spending.

It is important for charity trustees to ensure the charity's funds are used appropriately.

For example:

- is this in line with our budget?
- what are the implications short and long term of spending this money?
- does the charity need to spend this money – what benefit does it expect to receive?
- is the charity obtaining value for money?

5. Make sure all trustees have a basic understanding of the charity's finances.



Trustees don't have to be qualified accountants, but they should ensure that they understand how the charity's finances work and be able to make decisions about the financial position.

You should expect charity trustee meetings about finance to cover points like:

- How much money does the charity have in the bank?
- Can the charity afford to pay its bills?
- Does the charity have a budget to help it plan and control when money will come in and be spent? If not, it should prepare one as a priority to support good decision making.
- Are the finances of the charity in line with the budget what was expected? If not, what actions need to be taken?
- Does the charity have financial commitments? If so, does it currently have the money to pay those or does the charity expect to receive more money soon to help it do that?
- What would happen to the activities of the charity if there was a sudden interruption to its income and what would the impact be on the charity's beneficiaries?
- Does the charity need to seek professional advice for a financial decision that is complex?

6. Have all of the information you need before making decisions.

Keeping the information simple will ensure everyone understands and uses it.

Trustees should collectively agree what information they need to support discussions at meetings that have financial implications and how that can be best presented. The charity's treasurer or finance manager should be available to explain information so everyone understands, and no one feels left out.

7. Do not hide information from any charity trustee.

Information about the charity's finances should be shared among **all** charity trustees with no trustee concealing it from the others. While one trustee may take the lead with preparing financial information or dealing with practical financial matters, this does not mean that the information they have should be kept from fellow trustees. Remember, trustees are collectively responsible for the running of the charity.

8. **Communication among trustees and staff is key.**

Talk, share and be as open as possible. If the charity is in a difficult financial position this may cause concern for the charity's staff. If this happens, share sensibly with explanation and context to aid appropriate understanding.

9. **Communicate more widely when it is appropriate.**

Think about who else wants to know and has a legitimate interest in the charity's finances – members of the charity, beneficiaries, funders and donors for instance. They are likely to be interested in how the activities of the charity are being funded and how any money that the charity has received specifically for those activities is being used.

10. **Report correctly.**

Consider making the most of the financial information that is available to support the best running of the charity instead of preparing different sets of information for different people. If charity trustees receive regular reports for their meetings, can those reports or information from them be used for other purposes too such as meetings with the charity's members or update reports that the charity sends to its funders? This will help to minimise the amount of work involved and support stronger understanding as people will be looking at consistent information.

These lessons are designed to help charity trustees meet their legal duties that are set out in charity law. By exercising good financial management, charity trustees will be better placed to contribute properly to discussions and decisions that they will be collectively responsible for. It will support their confidence in how they carry out their role and ensure that no individual trustee is placed in a vulnerable position by having sole responsibility for financial matters.

Further sources of guidance and support

- OSCR's [Guidance and good practice for charity trustees](#)