“Reviewing the Finance Function – Set your course and cruise”
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Overview

1.1 Introduction

Lets face it – we are busy people caught in a busy world with limited time to reflect. But taking the step back, how good is your finance function? … and is it ‘fit for purpose?’

This chapter has been inspired by the number of people who have asked me to explain how you go about a strategic review of the finance function. I hope you find it useful.

1.2 Why consider finance strategy?

As a matter of good practice and continuous improvement, finance departments should go through self-evaluation every few years. This is not done to meet the needs of internal audit or external audit, but rather to consider finance and management information as delivering a service to the whole organisation.

Particularly after a Charity has completed a strategic review this will need the finance department to align themselves with the overall strategic direction and support the implementation of future initiatives. For example, it is often the case that a strategic review will identify additional management reporting needs. Specifically linking the strategic objectives to key performance indicators becomes more important, not only to identify how we are achieving our strategic direction but also pulling the organisation back on track if the focus has been lost. This may often involve a change of focus for the finance department.

Any finance function review will be focused on the following:
- Supporting the overall Charity strategy
- Increasing financial awareness and learning throughout the organisation
- Delivering a better and more effective financial service; and
- Providing a better control environment

It is concerning that many finance professionals see reviewing the finance function in a defensive way, exploring weaknesses they would not rather share. In other cases finance professionals are doing a wonderful job but lack the idea of ‘best practice’ that could kick-start them into improving performance. Planning for the future will help focus both time and resources.

So in summary, changing needs or a will to improve the finance function will generally drive any finance function review.

1.3 What are we trying to achieve?

In any finance function review we are aiming to improve the service offered by finance and ensure this is ‘fit for purpose’ and meets the organisation’s needs.

In particular the finance function will typically go through a journey.

At the basic level is the ***Scorekeeper***. The finance department keeps basic financial records and produces basic financial and statutory reporting but lacks the ability to commentate on or ‘add value’ to the operations of the Charity. Any team which is focused on meeting the statutory deadlines and regularly only provides limited additional financial reporting with no feedback is typically exhibiting a scorekeeper behaviour.

At the next level comes the ***Commentator.*** The finance department will typically produce competent financial and non-financial reporting on the activity of the organisation and reports this to Trustees, management and budget holders along with commentary. However, the finance team is often seen as a 'necessary evil'. Information is typically focused on the past not the future and is seen as commentating in a competent way on what has already happened.

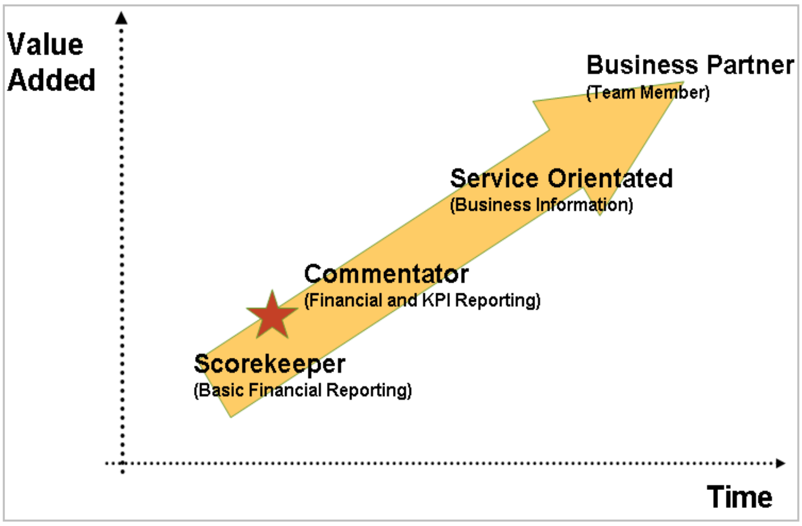
The next evolution of the finance team is to become ***Service Orientated***. Meeting the needs of the organisation becomes the key priority and finance is integrated throughout the organisation into working groups and project teams. In addition, information on both financial and non-financial information is focused on the future and identifying likely outcomes. This will allow the organisation to respond appropriately to changing conditions.

However, the final step and 'holy grail' of the finance team is to become the ***Business Partner***. Here information provision is typically automated such that users can access this themselves. Finance is used in all business cases as an integral business partner in all decisions and is seen as 'embedded' throughout the organisation and focused on the future. Rather than being a support function or burden, it is seen to really add value to business decisions and future direction.

It is worrying that while the SORP is welcome in focusing finance teams away from just financial information, it is preaching that commentating and keeping score is enough. Organisations should aim for the business partner role. Specifically in charities where grant funding, core costs and overhead management are paramount, the finance team must become a key business partner in all decisions. More often than not, instead they are seen as a support function and a drain on resources.

Figure 1 below shows the evolution of the finance function from Scorekeeper to Business Partner. When we[1] completed a survey of finance teams several years ago, the red star indicated where the majority of finance functions saw themselves – certainly this leaves plenty of scope to move up.

Figure 1: Evolution of the finance function



1.4 The process of adding value

So how do you step up the value chain to achieve Business Partner?

There are three simple steps to follow:

- Identify where you are now (Your 'As is' state)
- Identify where you want to be in the future (Your 'To be' state); and
- Create a plan of how you are going to get there

[1] At the time I was working with KPMG LLP.

You will need to ensure that any change is properly project managed and links in with any other change activity within the organisation. You will also need to consider any incremental costs and focus on some ‘Quick wins’ to make it seem as if you are making progress early in the process; this will help ‘buy-in’ staff to future change.

The main objection to reviewing the finance function is the cost associated with any such change? By becoming more efficient, and by adding value to business decisions you can build your financial case for change. In particular automation of process and ensuring that staff can access information themselves rather than having to rely on finance, will lead to real savings and efficiencies.

But having decided that we want to add more value how do we actually review the finance function? That is the focus of the next section.

The elements of a strategic review of the finance function

2.1 A plea

I want to start this section with a plea: please “*keep it simple*.”

Whatever you do, and however you review your finance function, make it focused and easy to understand. Your final aim will be to have a document with all output in, no more than 8-10 pages long.

This should explain your finance strategy for the future and provide an implementation plan for any change, plus review the risks in any such change. It should be easily understood by all staff members and shared such that all can ‘buy into’ this.

So what are the elements of a finance function review? …

2.2 SWOT (“An initial review”)

A good first step in any review is to look at **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats (“A **SWOT** analysis”).

I find that finance employees usually have a good idea of their strengths and weaknesses and are able to identify areas in which they need to improve. A workshop with finance staff is always a good way to develop buy-in for any change and also give people a chance to air concerns and their views.

This can be completed by the finance team itself sitting and formally identifying what is done well, for example paying suppliers on time such that discounts are taken – against what is done badly, quite often focused on being seen as a business partner, being able to ‘add value’ around investment cases for the business, or develop and influence management information.

In addition the finance team should consider any opportunities or threats it foresees and any barriers or risks to change.

In certain circumstances Charities may also need to consider the legal and taxation framework in which they operate as part of this initial review. An example is where a large amount of restricted income is generated or where donors have strict reporting criteria for their funding.

2.3 Aligning with the overall strategy

The next step is to consider the implications of aligning the finance function with the overall charity-wide strategy. This will mean that any finance function review will need to consider whether its current format and services can meet future strategic needs.

For example, in many cases the provision of information may need to be improved both for financial and non-financial information. The support for taking business cases to the Trustees and SMT may also be seen as weak. By focusing on these two areas this may change the focus of the finance function and require new skills to be developed, typically meaning that the finance function will be less focused on processing, but more focused on understanding the operational activity and working with management to build a case for change. The implications of any such changes for people, process and technology will need to be explored.

2.4 Internal and External Review

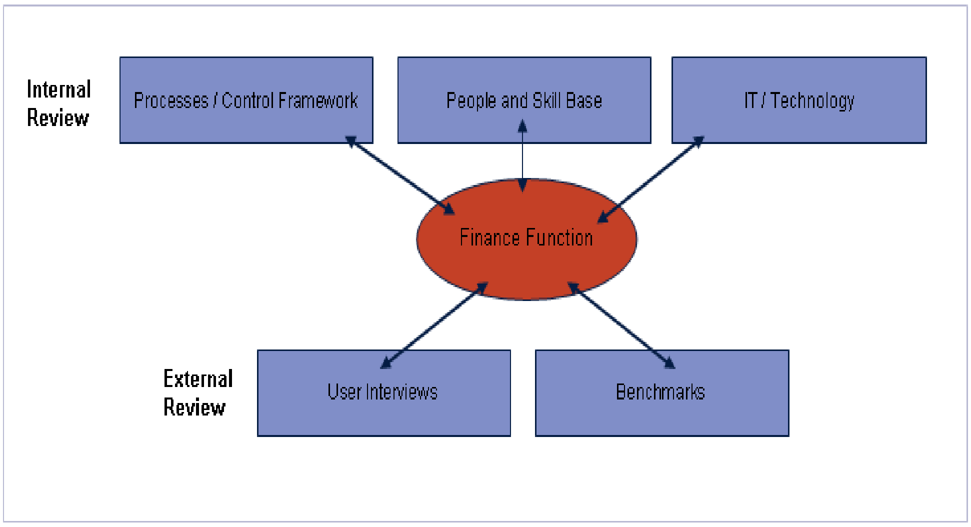
Having completed the first two stages of review, the finance team will both have a good idea of overall direction for the future to support the organisation strategically, and will also have an idea of its strengths and weaknesses within this context.

We now start the analytical review work …

Any review must have both an internal and external context as shown in figure 2 below.

It is important for the finance strategy to be self-effacing to decide its future direction, but this must also be corroborated by what the rest of the organisation feels and requires. In addition benchmark information can help determine where performance could be improved, and if resourcing is appropriate.

Figure 2: Finance Function review as a diagram



The big problem, which often surfaces, is that the finance staff often lack a vision of what “best practice” looks like. For example what does a really good finance function look like and how does it behave? Is this different for commercial compared to charitable organisations?

This is where consultants or your auditors should be able to help. Alternatively the CFDG itself is a wealth of good knowledge focused on improving the work of the finance department.

My feel is that the finance function itself can often run its own review process to identify and stimulate improvements. However the input from external consultants (or those who can identify a different way of working) can provide a quantum shift in efficiency and effectiveness for the future. **Don’t be afraid to use advisors and consultants if they can add a different dimension to your thoughts!**

2.5 External Review – User Interviews and benchmarks

The finance team should reach out and talk to 'users' of finance within the organisation.

A structured and unbiased feedback from questions will usually provide a good starting point for identifying future change. User interviews could be as simple as asking a question by e-mail to all users such as "tell us the three things we do well and the three things we need to improve," or could be independently completed by consultants, the choice is yours. What you require is both detailed and general information about how well the finance function is performing along with any fundamental change which is deemed necessary.

Benchmarking can provide really good information against which to judge current performance. Benchmarks could be completed against peer group (through a benchmark club or similar) or through the CFDG and the Finance Count ™ studies.

Benchmarks are often focused on commercial organisations and should be used with caution when applied to the charity world. An example benchmarking study is shown in figure 3 below.

Figure 3: An example Benchmarking for XYZ Charity

Benchmark	Score for XYZ Charity	Peer Group Upper Quartile	Peer Group Middle Quartile	Peer Group Lower Quartile	Implications
Ratio of management information staff to processing staff	1:6	1:3	1:4	1:6	Finance function appears to have many processing people versus management information staff. Could imply inefficient processing, or need to focus more on management information.
Cost of Finance Function as % Revenue	1.5%	1.5%	2.5%	4%	Low cost of finance function could be indicative of good practice, or could be because focused around processing and not 'adding value'. May also be indicative of automated systems.
Invoices processed per Accounts Payable staff per annum	4,800	6,000	4,800	2,400	Staff are processing invoices for payment in an average way but this could be improved by possibly automated matching processes for invoices, or consolidating supplier invoices?

Benchmarking comes with a huge government health warning – no two organisations are ever the same. Therefore benchmarks should be seen as indicative but this will need exploring fully to understand why variances between different organisations exist.

A simple example is that Cats Protection uses neutering vouchers, which it processes through an Accounts Payable system; for this organisation it is incredibly efficient because limited information needs to be kept and processing is simple. A similar animal welfare organisation may not use neutering vouchers in the same way and therefore may look inefficient in comparison.

Another example is that a Charity working with visually impaired staff may need distinct (and specific) IT facilities to support these staff. This may mean their IT costs are comparatively higher than others!

Used in the right way benchmarking can be a powerful tool, but consistency of results needs to be ensured.

2.6 Internal Review

There are three main areas of internal review that needs to be considered

- People
- Process
- Technology

In addition, the internal review should consider governance arrangements, plus management information and KPI reporting.

"People, process, technology" trips off the tongue nicely, but needs a little tweaking in reality. I would always leave *people* until after we have identified process and technology based weaknesses, linked the needs to future Charity-wide strategy, and considered the results of any interviews with users and benchmarks. Only then can we understand if the staff and their skills will be able to meet future needs.

2.7 Process

Dependent on the detail of any strategic review you may want to review the *processes* for both efficiency and effectiveness. One good way to do this is through 'mapping' and identifying which processes are weak or do not 'add value' to the process and can be removed. If you map your processes across departments as well as across time you can usually spot inefficiencies and streamline process.

Three typical process based weaknesses are focused around the purchase to order processes:

- There are often multiple ways to purchase items through different departments – these should be standardised such that controls over purchasing are improved;
- Often purchase and authorisation limits have not been clearly set for budget holders except those at a senior level. Empowering more junior staff can lead to freeing management resource and a greater degree of trust evolving; and
- Staff in different departments often maintain their own spreadsheets of information to meet their own reporting needs. By improving the coding of information as this is entered into the financial ledgers and reporting more effectively, we can remove the need to keep duplicate information in spreadsheets providing all information from the finance system and really 'adding value'.

Any review will need to consider how good controls are. By mapping the processes you will also be able to see if controls sit in or outside the workflow and if these are effective or not. Similarly, by testing the controls you will be able to see if these are weak or strong.

Addressing control based weakness and streamlining process can provide quick wins. In addition many finance function reviews identify the need to replace computer systems or change the chart of accounts to improve reporting. In mapping and improving processes you will then implement good process to any new computer system or chart of accounts.

2.8 Technology

Technology has improved significantly over recent years. Finance systems now typically allow users to obtain and review their own information and create reports themselves at regular intervals ("devolved information"). This takes away the finance department need to support this; the users 'own' the information better and we have resource savings within the finance team. New technology has also typically allowed users to access Internet reporting tools, meaning that remote support can be improved.

Finance systems now have good capability to facilitate electronic purchase and authorisation processes. This will allow goods to be ordered and authorised without paper-based processes, and this can improve both speed of ordering and control over liabilities and outstanding costs.

If you are re-keying information from one system to the next ask yourself why? New technology has helped systems to integrate better such that information automatically 'flows' between systems. This reduces cost in re-keying to the financial ledgers and reduces the incidence of error in re-keying.

A whole paper could be written on the implementation and choice of finance systems and technology. I think it is enough to say here that many finance departments do not understand how technology can really help the finance department both improve the controls environment and become more efficient.

Many suppliers are happy to guide organisations by identifying what benefits automation, technology or a new finance system can bring. Alternatively asking peers throughout CFDG can provide access to a wealth of new ideas. Softworld is a supplier conference, which focuses each year on finance and HR systems and can be a good place to start your thinking.

2.9 Other Considerations

To complete your internal review of the finance function you should also consider the following areas:

- Reporting and management information
- Chart of accounts; and
- Finance Governance

Reporting and management information

Reporting and management information should be provided to meet the user's needs. It should be brief, focused and contain both financial and non-financial information. In addition, it should be focused on the future likely out-comes.

The Trustees and management team will need to spend time identifying key performance indicators to measure the implementation of the 'charity-wide' strategic plan. These will need to be linked to the key objectives and possibly as a balanced scorecard measuring all angles of future development and growth. It may be that you wish to report major strategic projects and activities with the Trustees management information, along with some graphical representations of operational activity. It will be the finance function will be responsible for collating and reporting this.

Two other good tips are to write on the front of the reporting pack a summary of any ideas and information you want the Trustees and SMT to focus on, referenced through to the detail. Secondly, highlight those variances of actual versus budget you want people to focus on, by creating a coloured 'block' around this or reporting numbers in different colours. This will focus attention.

By only reporting (for example) where variances exceed £50k and are at least 10% difference against budget, this will focus the reader. This is shown in figure 4 below.

Figure 4: Highlight those variances you want people to read, focus on both size (£50k) and +/-10% variance

COSTS	Month (£000s)			YTD(£000s)				Budget	Forecast
	Actual	Budget	Variance	Actual	Budget	Variance	Prior Year	£000s	£000s
Operations	35	50	+30%	235	350	+32%	380	400	450
Veterinary	8	10	+20%	70	60	-16%	75	120	130
IT	30	20	-50%	120	300	+60%	150	400	180
Finance	26	25	-4%	75	80	+6%	80	100	95

In our analysis in figure 4 only those highlighted variances will be discussed in the narratives to SMT and the Trustees, thereby focusing their attention.

One very well respected FTSE-100 company streamlined their reporting to five pages:

Page 1: Header + Circulation list + Important items of note
Page 2: Reporting on strategic projects
Page 3: KPIs & key measures of performance (financials and non-financials)
Page 4: Key areas of financial performance and commentary
Page 5: Staffing and year-end bonus payment levels (!)

This is all their Board required to run the organisation – so why provide anything more. They could always ask for more if needed.

Chart of Accounts

It is often the chart of accounts which causes reporting problems – given that the organisation may have restructured several times since this was set. Reviewing this and identifying how this should be structured for correct analysis (with the right cost centre breakdown) may improve information and reporting efficiency.

Finance Governance

And finally don't forget to review your governance arrangements with the Board of Trustees. Do you have an Audit Committee, or Finance and General Purposes Committee or similar? Do you need an investment committee?

Ask yourself the question – do you have adequate financial challenge from the Trustees regarding reserves policy and do they have Trustees with sufficient financial skill base to be able to challenge?

Finding the correct Trustees with the correct skill base and vision can often be invaluable to building and developing the finance function.

2.10 In Summary…

So in summary, what have you completed?

Step 1:	Identified strengths, weaknesses, opportunities & threats for the finance dept.
Step 2:	Identified change in focus for the finance department by aligning this to the 'charity-wide' strategy
Step 3:	Corroborated your ideas from Step 1 and Step 2 with interviews with users of finance and benchmarking (external review)
Step 4:	Completed an internal review of the finance function by focusing on: Process Technology Governance; and Management information (including the Chart of Accounts)

2.11 People

You are now ready to complete the final piece of the jigsaw … people. You will need to see if the future strategy can be met using the skill base currently in the finance team. If not, can training be used to provide an idea of 'best practice' and the skills necessary for the future?

By completing a skills assessment you can also determine where you may need to go and get external help to enhance your understanding of best practice or challenge your plans for the future in terms of new systems or automation.

… and that's it!

You have completed your review of the finance function.

Implementing change

3.1 General

Section 2 identified how you go about a strategic review of the finance function. Having completed this you are in a position to pull together an implementation plan.

Good project management is essential if the change is to be realised. A simple project plan can be established laying out for each action: priority, owner, resources, timescales, dependencies or other actions that need to be completed first, and risks that may impact the change programme.

It is always shocking to me how many charities lack an annual planning cycle and do not plan effectively. Plans never work out quite as expected but good planning can ensure that at least actions are completed in a coordinated way and such that the organisation has sufficient resource to manage this and understand the size of any change.

Another good piece of advice is don't take on too much, and give yourself time to take a break during the process. Change can be broken down into 'bite-sized chunks'. For example, when implementing a new finance system, plan to put ledgers in and establish basic reporting then stop and take stock. It is often the case that the year-end audit may get in the way of any change and staff may need a break or short holiday before continuing. This will allow staff to be fresh for the next phase of implementation.

3.2 The Business Case for Change

The business case for change is often the most difficult to clearly explain. It is sometimes difficult to ‘buy’ the Trustees into the need for change and the necessity of a short-term cost to achieve long-term benefit. Typically the change will lead to better information, lower processing costs, an improved control environment, and better understanding of finance and non-financial information for decision making.

One good way to look at this is that by improving systems the charity can often complete better cost analysis, procurement and financial control. This means that suppliers can be consolidated and wasteful processes eliminated, saving money. In addition the organisation will be more able to secure and look-after it’s assets, the primary duty of Trustees and management.

By providing better information the charity can typically make better business decisions and react to circumstance and likely future outcomes. This can save the charity both time and resource through better decision-making. In addition purchasing goods cheaper and also consolidating suppliers can drive down costs.

Better cash flow management will allow greater funds to be put on deposit therefore creating a higher return on surplus cash. This can provide cash flow interest, which can then fund any change within the finance team.

3.3 Service delivery – the internal customer

Often the review will identify that the finance team is not focused on the quality or timeliness of their output i.e. meeting user’s needs. By focusing on a service delivery culture, and by viewing users as internal customers, this can improve quality and speed of response.

The finance team should have a ‘can do’ attitude and should be keen to meet the needs of internal customers. Improvements around telephone answering, and what it means to show good customer service can provide real benefit.

Service level agreements (SLAs) could be set with the finance team, giving response time on management information and payments and in addition a single point of e-mail or telephone queries could be established.

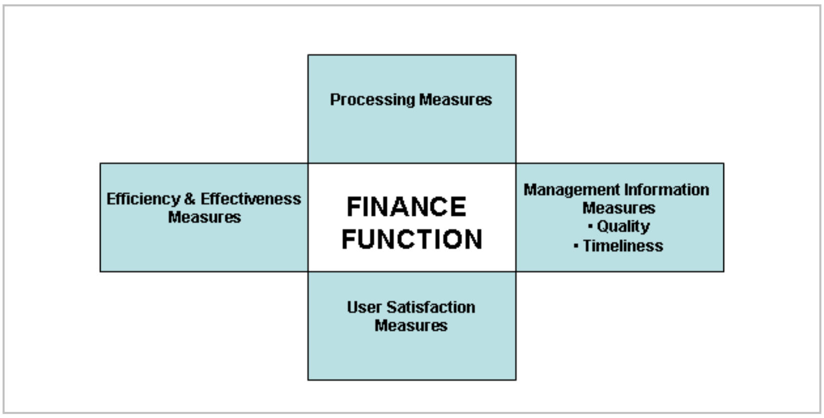
3.3 The balanced scorecard and measuring implementation

So how could you measure and report on the implementation of change and its success? This could be done by use of a ‘balanced scorecard’ model. Figure 5 shows an example ‘balanced scorecard’ model based on the primary functions of a finance department – processing income and payments – along with the provision of timely and quality information.

In addition measures of efficiency and effectiveness and ‘user satisfaction’ could be determined.

By monitoring each area of the scorecard we can see if the finance function is changing in a ‘balanced’ way to meet all elements of the change.

Figure 5: An example ‘balanced scorecard’ model for measuring change within the finance function



Measures in each of the areas will need to be established along with a target for each element. These will need to be monitored against and reacted to if the change is seen to be going ‘off target.’

3.5 Organisational growth and implications

One of the most frequent drivers for change in the finance function will be organisational *growth*. Here the finance function’s infrastructure may not have grown with the organisation and will have been left behind. Reviewing the future needs of the organisation in terms of the process in Chapter 2 should provide the platform for appropriate change.

However, there are two other areas which will need to be focused on:
Investment appraisal – typically a small finance function will often lack the skill base to be able to be able to actively complete investment appraisal on strategic projects or new initiatives. A formal set of procedures should be established for any new large investment (possibly greater than £50,000) and equally for any new trading activities. Tender processes should be formalised to ask for three bids as best practice.
This skill base may often rest with the Finance Director but nowhere else. As the organisation grows, additional staff may need to be recruited with this skill base.
Succession planning – often a smaller finance team is at risk because information is not shared. As the charity grows good succession planning should be established to ensure that other staff members can be used to take-over or support activities in times of need.

Specifically with growth it is important to understand the organisations cost base – to ensure that sufficient overhead recovery is being achieved to cover the administrative functions. This is further explored in the next section …

3.6 Understanding your cost base

With statutory funded charities and charities which are focused on institutional funding, monitoring overheads and their recovery becomes even more important. This should appear a key part of any finance function review for these Charities, and the finance team should be a Business Partner in all decisions and funding applications.

The government and many other grant providers have given a guarantee to fund a fair proportion of overheads in funding models but this is still not always accepted. Equally many charities do not understand their cost-bases sufficiently to have the robust conversation with funders that is required to ensure appropriate recovery.

There are many good publications on core costs and understanding cost bases. One of the best is from CFDG – “Understanding your cost base”. This should help focus on this angle of the finance function review.

3.7 Outsourcing

Finally a word on outsourcing, this is always an option to consider when reviewing the finance function. Many suppliers are happy to provide a full or partial financial service depending on your specific needs.

A few key tips:

- Don't outsource bad process (improve this before outsourcing!)
- Define carefully the scope of the work you wish to outsource; and
- Ensure you don't give away control over information or process you need to maintain control over.

One good example of where outsourcing works well is with gift aid claims on regular giving. This can free up internal resource for other work.

Where outsourcing may not work is where you loose control over your data. Many outsourcing organisations will charge for reports and alterations to data on the database, this may become punitive where you wish to analyse, change or 'learn' from your data.

The benefits of outsourcing can be a cheaper finance function with more focused support.

In conclusion:

As a matter of good practice and continuous improvement, finance departments should go through self-evaluation every few years. This is not done to meet the needs of internal audit or external audit, but rather to consider finance and management information as delivering a service to the whole organisation.

We have now identified the phases of development of the finance function from scorekeeper to business partner in Chapter 1.

In Chapter 2 we have identified how to review the finance function. In addition we have considered some specific points in implementation in Chapter 3.

In summary to review your finance function follow the following five steps:

Step 1:	Identify strengths, weaknesses, opportunities & threats for the finance dept.
Step 2:	Identify change in focus for the finance department by aligning this to the 'charity-wide' strategy
Step 3:	Corroborate your ideas from Step 1 and Step 2 with interviews with users of finance and benchmarking (external review)
Step 4:	Completed an internal review of the finance function by focusing on: Process Technology Governance; and Management information (including the Chart of Accounts)
Step 5:	Identify if staff skills are sufficient to meet future needs by completing a skills assessment on people. Identify training or the need to engage outside assistance from this.

Above all, keep the review and its conclusions simple and share these with others to achieve 'buy-in' for your future direction.

Finally, good luck!