

Internal financial controls for charities

Charity Commission document CC8 looks at various areas of financial activity and provides examples of internal financial controls that are commonly used to reduce the risk of loss. The guidance covers a wide range of financial activities and not all sections will apply to your charity.

The Charity Commission has a check list which sits alongside this guidance document for use by charities to evaluate their internal control procedures.

Why have financial controls?

The Charity Commission states that:

“Internal financial controls are essential checks and procedures that help charity trustees:

- meet their legal duties to safeguard the charity’s assets
- administer the charity’s finances and assets in a way that identifies and manages risk
- ensure the quality of financial reporting, by keeping adequate accounting records and preparing timely and relevant financial information

If a charity is to achieve its aims then the trustees need to ensure that assets are properly used, that its funds are spent effectively and its financial affairs are well managed.”

The trustees, as a body, are together responsible for establishing, implementing and monitoring their charity’s internal financial controls. They may decide to delegate the detailed work on this task to one or more trustees or to members of staff. However the trustees should make a collective decision on what controls are needed.

The controls put in place need to be monitored to ensure that they are complied with and provide a sufficiently robust system for managing financial risk. The monitoring of financial activities by trustees and management on a regular basis is a vital part of this process.

Internal financial controls in practice

Income

Received in the post:

- Kept securely
- Accurate records kept
- Banked as quickly as possible
- Compare income year on year and question differences

Trading Income:

- Regular review of prices and that prices cover costs
- Ensure robust charging procedure – all goods and services supplied are charged for
- Stock control procedures

Banking:

- cheque and cash receipts should be promptly recorded in the accounting records
- cheques and cash should be banked regularly and promptly
- cheques and cash not banked on the day of receipt should be placed in a safe or locked cash box

Income records

- records of cash and cheques received agree with bank paying-in slips or counter foils
- counter foils or paying-in slips agree with the bank statements, both in terms of amount banked and date of credit
- transfers or other direct payments into the bank are identified and verified against supporting paperwork

Purchases and Payments

Authorisation of expenditure:

- establishing authority levels for placing orders and approving payments which are clear and preferably documented
- ensuring that orders placed are within an agreed spending plan or budget - additional spending outside agreed budgets should be authorised
- ensuring invoices received are checked against orders confirming the price paid and the receipt of the goods or services ordered

Cheque payments:

- ensuring cheque books are kept in a secure place
- regular review of bank mandates and authority limits
- prohibition on the signing of blank cheques
- prompt recording of payments in cash books including details of the cheque number, nature of the payment and the payee

- obtaining documentation to support the validity of the payment including relevant invoices and confirmation that the goods or services have been received

Payments by direct debit, standing order and BACs

- controls should provide assurance that direct payments are only made for expenditure properly authorised and incurred by the charity.
- Controls should ensure that payments are only made when authorised
- payments are accurately recorded in the accounting records.
- where possible use a banks dual-authority option

Payments in cash

- cash payments are kept to a minimum and for small amounts only
- cash should be paid out of a petty cash float specifically kept for such payments, and not from incoming cash or by way of direct withdrawal from the bank account
- details of payments should be entered in a petty cash book
- supporting documentation for the cash payment should be authorised by someone other than the person who maintains the petty cash or the person making the payment
- the balance of petty cash in hand, and the records, should be kept securely
- regular spot checks of the petty cash float should be made by an authorised person independent of the person who maintains the petty cash

Payments and re-imburement of expenses

- a formal expenses policy should exist applying to all trustees, staff including the CEO and senior management and volunteers
- the policy should be clearly communicated within the charity and included within induction training
- expense claims should be authorised by someone other than the claimant and checked for accuracy before payment
- expense claims should contain a self-declaration that the claim is accurate and incurred in connection with the business of the charity
- to minimise the charity's cash payments, reimbursement should be made by cheque or BACS transfer
- any mileage rate paid for motor travel should be at HMRC rates that do not result in a tax or national insurance liability for the charity or the claimant

Expenditure records

- records of payments are checked periodically to cheque stubs, credit card statements or bank statements - these checks may be carried out as part of the bank reconciliation processes
- periodic checks are made to ensure payments are supported by invoices which have been properly authorised

- regular review of standing orders and direct debit payments are made to ensure payments remain in accordance with valid instructions given to the bank or building society
- expenditure from restricted funds is in line with the restriction placed on how funds are to be used

Assets & Investments

Fixed Assets

- a list or register should be maintained of all assets. This record should show the cost (or value) of the asset and provide sufficient detail to enable an asset and its location to be identified
- fixed assets should be inspected at regular intervals to ensure that they exist, remain in good repair and are being put to appropriate use
- the disposal or scrapping of fixed assets be appropriately authorised and recorded in accounting records and in any fixed asset register
- the adequacy of insurance cover is reviewed at regular intervals
- the boundaries of any land and building are secure and recorded appropriately with the Land Registry
- the title deeds to land should be held securely and record adequately the charity's interest in the land

Investments

Trustees have a duty to apply the charity's income for the benefit of its beneficiaries. This usually means income should be spent rather than invested. However, it is likely that some funds will be retained within the context of a reserves policy and where appropriate invested. It is important that the trustees make sure these investments are safeguarded.

Cash held on deposit

- bank reconciliations are prepared at least monthly for all accounts, reviewed by a second person and any discrepancies resolved
- direct debits, standing orders and other transfers are checked monthly for correctness
- the bank account(s) are operated in accordance with the agreement with the issuing Bank and are not used for any money transfers for the private benefit of individuals or third parties under any circumstances
- a list of all its bank accounts is kept and reviewed for dormant accounts which should be closed
- the opening or closing of accounts should either be authorised by the whole trustee body, or if delegated, the trustees should be informed of changes
- the costs and benefits of the current and deposit accounts held are regularly reviewed to ensure bank charges and/or rate of interest are competitive and that the credit rating of the deposit taking institution is acceptable

Useful links to the Charity Commission website

Internal financial controls for charities (CC8)

<https://www.gov.uk/government/publications/internal-financial-controls-for-charities-cc8/internal-financial-controls-for-charities>

Checklist: Internal financial control for charities

<https://www.gov.uk/government/publications/internal-financial-controls-for-charities-cc8>