



Financial Controls Guidelines

v01

Scope

It is a duty of the trustees to ensure that the branch's resources are protected in order that the branch can fulfil its aims. It is important that all those working in the charity whether trustees, staff or volunteers take the issue of internal financial controls seriously. Making controls work should not be seen as just the responsibility of one or two trustees or senior staff members, or as applying to some but not others.

Internal financial controls should be just one part of a charity's overall control framework. The wider framework should cover all the branch's systems and activities.

The aims of internal financial controls are:

- to protect the branch's assets
- to identify and manage the risk of loss, waste, theft or fraud
- to ensure the financial reporting is robust and of sufficient quality
- to ensure that the trustees comply with charity law and regulation relating to finance.

Protecting our branch

No system of controls, however elaborate, can guarantee that a branch will be totally protected against loss, waste, theft or fraud, or mistakes. Having sufficiently rigorous controls, however, provides protection for the branch's assets and the best defence for the trustees against the charge of failing to protect the branch's assets and funds.

The trustees should, at least annually, ensure a review is conducted of the effectiveness of the branch's internal financial controls. This should include an assessment of whether the controls are relevant to, and appropriate for, the branch and not too onerous or disproportionate.

Segregation of duties

A key feature of internal financial controls is to ensure that no single individual has sole responsibility for any single transaction from authorisation to completion and review. It is important where the trustees administer the charity personally and that there is sufficient segregation of duties amongst them, so that no one trustee is overburdened or exercises sole responsibility.

There may be resource constraints which can make it difficult in smaller branches to achieve a full segregation of duties. However, trustees or management can take action to compensate for these difficulties. These actions include trustees or managers reviewing reports of transactions or control checks independently of the person who normally undertakes the work.

Financial control

One of the most important financial monitoring activities is financial control, i.e. monitoring the branch's financial performance. Proper and realistic estimates of income and expenditure need to be made for each area of the branch's activities for each financial year.

The branch should have procedures for sharing monthly or periodic financial information with operational managers and trustees. Monitoring procedures should identify and seek explanations for significant over or underperformance of both income and expenditure.

Financial information – meetings

The financial information is provided and reviewed at each trustee meeting and includes details of the branch's financial position and performance. The information should be sent to each trustee before each meeting and will typically include:

- the latest management accounts
- details of cash flow and closing bank balances.

The meeting should set aside a specific time within the agenda for discussion of financial matters and allow the trustees to raise any issues of concern.

Trustees' responsibilities

Trustees have a number of legal duties that must be met in relation to accounting and financial reporting, these include:

- keeping 'sufficient' accounting records to explain all transactions and show the charity's financial position
- preparing an annual report and statutory accounts meeting legal requirements
- formally approving the Trustees' Annual Report and accounts
- ensuring that accounts are subjected to any external scrutiny required by law or by the charity's governing document
- ensuring that the Trustees' Annual Report, accounts and annual return are filed on time with the Charity Commission where filing is required by law
- meeting requests from the public for copies of the charity's most recent trustees' annual report and accounts
- safeguarding the assets of the charity and ensuring proper application of resources
- taking steps for the prevention and detection of fraud, financial abuse and other irregularities.

Income

The controls should provide assurance that the income received in the post is kept secure, is accurately recorded in the accounting records and is banked as quickly as possible. The post should be held securely from the time it is received until it is opened. There should be no undue delay in the opening of the post, the recording of receipts and banking. Where a charity has no option but to allow a single individual to open mail, the trustees should consider the need to implement other controls, for example, comparison of donations with past periods or receipts from previous appeals.

It is recommended that the following **internal financial controls** are in place:

- collection boxes are individually assigned and their issue and return is monitored
- all collecting boxes are sealed before use so that it is apparent if they have been opened before they are returned
- all collection boxes are regularly opened and the contents counted
- general public collections are counted in the presence of the collectors and a numbered receipt given to them
- cash collected is banked by the branch as soon as possible without deduction of expenses
- For **fundraising and sponsored events** it is also recommended that the following controls are in place:
 - records are maintained for each fundraising event, in sufficient detail to identify gross receipts or takings and costs incurred
 - for all events for which there is ticket income or gate money:
 - that tickets all are pre-numbered
 - a record is kept of all persons who have been issued with tickets to sell, and the ticket numbers that have been allocated to each person
 - a record is kept of which tickets have been sold
 - all money from tickets and any unsold tickets are collected
 - a reconciliation is made of receipts against tickets sold

Cheques & cash received

Controls should ensure that cheques and cash received are kept securely, banked promptly and recorded in the accounting records. The following controls should help ensure a basic level of protection for the charity's funds:

- cheques and cash should be banked regularly and promptly and are registered in the shop till
- cheques and cheques not banked on the day of receipt should be placed in a safe or locked cash box
- funds should normally be banked gross without deduction
- funds used for float money must be advised to the Treasurer and spend accounted for
- insurance cover for cash in hand and in transit should be considered.
- Animal re-homing money (adoption) us banked weekly as a minimum

Expenditure

Expenditure controls help ensure that only necessary and authorised purchases are made and that funds exist within approved budgets to meet the expenditure. Controls also ensure that payments are made only for goods and services actually received and at agreed prices. We recommend that controls over purchases should include:

- 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 pricing and the receipt of the goods or services ordered

Payment by cheque

The use of cheques to make payments is diminishing with the use of electronic payment and carries additional costs so should be discouraged. However, cheques continue to be used and it remains important that payments are only made for expenditure properly authorised and incurred by the charity.

Controls need to be in place for payments made by cheque. Some governing documents require two signatories on cheques. Where practicable bank mandates should require two signatures, one of which being that of a trustee. Clearly, arrangements have to be practical and proportionate.

- 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.

Payment by direct debit, standing order & BACS

The branch may also make payments by direct debit, standing order and BACS. These are all safe ways of making payments provided that appropriate controls are in place. These controls should provide assurance that direct payments are only made for expenditure properly authorised and incurred by the branch. Controls should ensure that payments are only made when authorised and that payments are accurately recorded in the accounting records.

BACS payment is a simple, secure and reliable service, which enables organisations of all sizes to make payments by electronic transfer directly into a bank or building society account. However, before setting up the system the branch should ensure that it has robust controls in place, because the nature of these payments makes it difficult to recall them before the payee's account is credited, in the event of errors or fraudulent transfers being discovered.

Direct debits and standing orders

The difference between direct debits and standing orders is that the bank account holder is the only party to the arrangement who can make changes to the amount or collection date of a standing order. With a direct debit only the recipient of the monies can amend the amount, having notified the payer before doing so.

Authorising payments

- The branch has identified specifically authorised individuals who are able to set up arrangements to make payments by direct debit, standing order or BACS
- Authority is limited to authorised individuals: Judy Ammon – Treasurer & Amy Paton – Deputy Treasurer
- Payments should be monitored so that the branch can ensure that the arrangement is cancelled when the charity stops using the goods or services being supplied.

Reimbursement of expenses – refer to policy

It is important that controls over expense payments are applied without exception to all those involved with the branch: trustees, all staff and volunteers. It is recommended that a written policy should be in force for payment of expenses.

To ensure that the branch only reimburses legitimate expenses properly incurred on its behalf, for travel, hotel, conference, business, training and out-of-pocket expenses.

The policy should set out the requirement to complete expenses claims and to provide receipts. It should also clarify any fixed payments and any cap on total payments, i.e. hotel costs on a bed and breakfast basis for single occupancy are only reimbursed on production of original receipts to a maximum of £** a night.

It is also recommended that:

- a formal expense policy should exist applying to all trustees, staff, senior management and volunteers
- the policy should be clearly communicated within the branch 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 branch or the claimant

Investments & Reserves

Trustees have a duty to apply the branch'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. The branch may also hold endowed funds which are invested to provide income. It is important that the trustees make sure these investments are safeguarded.

It is also recommended that:

- trustees making an investment decision for the future, detail this in the Branch Annual Report (BAR)
- the need to consider the suitability and diversification of investments, including investments in deposit accounts, to ensure that the failure of one investment or institution does not have a major impact on the branch
- taking professional advice, where appropriate, before selecting or disposing of investments
- regular review of investment performance
- regular inspection of any investment properties to ensure tenant covenants are adhered to
- maintaining records of all investments held (including details of all those sold or purchased) by the branch
- accounting controls to ensure that all dividends, rent or interest payments due are received and that all purchases and sales of investments are properly authorised and accounted for.

Reserves policy;

To ensure we have the funds to fulfil our moral and contractual obligations should the branch fail for any reason. The branch does not have any restricted or designated funds. In the event that our funds fall below £95,000, we have in place a strategy to reduce our outgoings by reducing the intake of animals to be re-homed and concentrating on our shop income.

Bank accounts

The branch aims to ensure:

- bank reconciliations are prepared at least monthly for all accounts, reviewed by a second person and any discrepancies resolved
- a list of all 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
- third parties should not be allowed to open bank accounts in the branch's name, or use the branch's bank account to receive or transfer money
- 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 institution is acceptable.

Electronic banking

The branch may find using electronic banking convenient. However, in order to maintain the security of bank accounts there are a number of basic control procedures that trustees should ensure are in place.

The fundamental internal financial control recommended is that charities banking online use a dual authorisation system.

- There should be clear segregation of duties to prevent any single person from being able to control substantial resources or obtaining unauthorised access to account information
- There should be proper approval for movements between, and payments from, bank accounts.
- The level of risk involved in using electronic banking will vary considerably depending on how the facility is used. For example, possible uses may include:
 - Use of the system simply to obtain information about their account and not to undertake any transactions which poses low risk
 - Allowing one authorised signatory to initiate transactions. This can be very risky unless there are strict bank controls (ie - allowing payments to be made only into previously authorised nominated accounts). The level of risk arising from single authorisation online banking means that it is not recommended this system is used by branches.
 - A system that requires authorisation of transactions by more than one individual. This type of system can work well provided the individuals do not divulge their security details to each other. It provides a similar control as dual signatures on a cheque. Dual authorisation systems are available but there may be a transaction cost. Nevertheless, it is still recommended that branches banking online use a dual authorisation system.

An example of a multiple authorisation system would be one user submits a transaction and one or two additional users will then authorise it from a 'pending transactions screen'.

Branches should ask their own banking services provider for details of their similar products.

In order to maintain the security over electronic bank accounts there are a number of basic precautions that can be put in place including:

- retaining print outs of statements as part of the accounting records
- keeping all PCs with access to the online banking facilities secure
- ensuring all PCs are up to date with anti-virus, spyware and firewall software
- keeping all the password(s) and PIN(s) secret
- changing passwords periodically and following changes in authorised staff and trustees
- adequate training for those using the charity's computer systems
- treating emails received relating to bank accounts with caution, in particular, trustees and staff should not respond to emails or telephone calls asking for personal security details.