CHARITY COMMISSION
FOR ENGLAND AND WALES

GUIDANCE

Internal financial controls for charities (CC8)

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Contents

1. Introduction

1.1 What is this guidance about?

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. This guidance looks at various areas of financial activity and provides examples of internal financial controls that are commonly used to reduce the risk of loss.

Internal financial controls reduce, but do not eliminate, the risk of losses through theft and fraud, bad decisions, human error, breaches of controls, management override of controls and unforeseeable circumstances. Internal financial controls reduce the risk of those things happening. If they do happen then internal financial controls should also help the trustees to find out sooner and take necessary action. Some controls may also help a charity achieve good value for money.

Charities vary considerably in terms of their size, activities and complexity. Where activities or transactions are complex then trustees may need to seek professional advice on appropriate controls in those areas. Section 6 of this guidance provides reference to more detailed information on internal financial controls and governance more generally. These sources of information will be relevant to those who wish to develop an in-depth understanding of best practice.

1.2 'Must' and 'should': what the commission means

The word 'must' is used where there is a specific legal or regulatory requirement that you must comply with. 'Should' is used for minimum good practice guidance you should follow unless there's a good reason not to.

1.3 Changes since the previous guidance

This version replaces the previous version published in August 2011. This revision addresses the withdrawal of the 'substantial donor rules' and the need for: a reserves policy, a policy for accepting hospitality, the documentation of trustee loans, a policy on 'mixed motive' investments if applicable, and appropriate steps to be taken to comply with the Bribery Act 2010.

1.4 Scope of this guidance

Financial controls are important for charities of all sizes. Even small charities with relatively simple structures and low-risk activities need to protect their assets and get the most out of their resources. Not all controls will be relevant for all charities; it is for the trustees to decide which controls are appropriate to their charity. The controls put in place by trustees should be proportionate to the risks involved.

Charities working internationally face additional challenges in transferring funds and operating outside of the UK and should also refer to the commission's guidance on **Charities working internationally**.

1.5 Using this guidance

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 guidance contains advice covering internal financial controls over a wide range of financial activities. When using this guidance it will be important to focus on those sections that are relevant to your charity. For example, if a charity has no staff then the section on control over wages and payroll can be safely skipped. Similarly, if a charity does not use electronic banking then that section of the guidance will not be relevant.

The guidance consists of a number of sections. Section 2 sets out some basic things to consider about internal financial controls, the role of internal controls and reporting structures. Sections 3, 4 and 5 detail controls in specific areas of the charity's financial activities: income, purchases and payments and assets and investments. Section 6 sets out additional sources of information and further reference.

In addition to this guidance an accompanying **checklist** has been produced, which consists of a series of questions to help charity trustees evaluate the performance of their charity against the advice in this guidance. The **checklist** should be read in conjunction with the guidance. It can be used to identify those sections that are relevant to a particular charity.

1.6 Technical terms used in this guidance

Accounting records means the documents and books of account kept by a charity of money coming into and going out of the charity and a record of its assets and liabilities.

Audit can mean external or internal audit:

- external audit is a regulated activity and refers to the statutory audit of the accounts. An audit is undertaken by a person who is eligible under the Charities Act 2011 and who is normally a statutory auditor for company law purposes. The auditor has to express their professional opinion as to whether the accounts are 'true and fair' and undertake procedures necessary to form that opinion in accordance with International Standards on Auditing (UK and Ireland)
- internal audit is part of the internal control arrangement. The internal auditor usually reports directly to the trustees or an audit committee set up by the trustees. Internal auditors look at all the risks facing an organisation and what is being done to manage those risks. An internal auditor might look at reputational risk, operational risk or strategic risk

Budget means a plan drawn up by the trustees which sets out the planned income for a future financial period, often a year, and the planned spending for that financial period. The budget estimates the amount and source of future incoming funds, and the amount and nature of planned expenditure for a particular future accounting period.

Current assets include cash, bank and building society current and deposit accounts, consumable and trading stocks, debtors and prepayments or any other amounts receivable in the short term, or assets held for resale.

Expendable endowment is a fund that must be invested to produce income. Depending on the conditions attached to the endowment, the trustees will have a legal power to convert all or part of the endowment into an income fund which can then be spent.

Governing document means any document which sets out the charity's purposes and, usually, how it is to be administered. It may be a trust deed, articles of association, constitution, conveyance, will, Royal Charter or scheme of the Charity Commission.

Independent examiner means a person independent of the trustees who is reasonably believed to have the requisite ability and practical experience to carry out a competent examination of the charity's accounts.

Management accounts means the form of financial reporting put in place to provide trustees, managers and budget holders within the charity with the financial information they need to manage the charity's financial affairs. Normally management accounts report actual financial performance against the budget for the period and may also include estimates of future income and spend for future periods.

Mixed motive investments are ones which trustees make on the basis that there are elements of both a financial investment and a programme related investment. The investment is justified because it furthers the charity's objects and provides a financial return but that financial return is less than the market return for the type of investment made.

Permanent endowment is property of the charity (including land, buildings, cash or investments) which the trustees may not spend as if it were income. It must be held permanently, sometimes as land, to be used in furthering the charity's purposes, sometimes as investments to produce an income for the charity to use. The trustees cannot normally spend permanent endowment without the commission's authority or concurrence. The terms of the endowment may permit assets within the fund to be sold and reinvested, or may provide that some or all of the assets are retained indefinitely (for example, a particular building).

Programme related investment (PRI) allows a charity to directly further its aims and, at the same time, potentially achieve some financial return. In making a PRI, trustees are not bound by the legal framework for financial investment because their decision is primarily about applying assets directly in furtherance of the charity's aims.

Reserves are that part of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes. Please see **Charity reserves: building resilience (CC19)** for more information.

Restricted funds are subject to specific trusts, which may be declared by the donor(s) or with their authority (eg in a public appeal) or created through legal process, but still within the wider objects of the charity. Restricted funds may be restricted income funds, which can be spent at the discretion of the trustees in furtherance of some particular aspect(s) of the objects of the charity. Or they may be endowment funds, where the assets are required to be invested, or retained for actual use, rather than expended.

Statutory accounts means the accounts prepared by the trustees which are required by and meet the form and content requirements of Part 8 of the Charities Act 2011 or where the charity is a company, Part 15 of the Companies Act 2006, to which are appended the required Trustees' Annual Report and, where required by law or the charity's governing document, the external scrutiny report prepared by the auditor or independent examiner.

Tangible fixed assets include land, buildings, vehicles and equipment and investments held on a continuing basis.

Trustees means charity trustees. Charity trustees are the people who serve on the governing body of a charity. They may be known as trustees, directors, board members, governors or committee members. Charity trustees are responsible for the administration of a charity.

2. Some key issues, monitoring arrangements and the risk from financial crime

2.1 Why are proper internal financial controls important for a charity?

The short answer

It is a duty of the charity trustees to ensure that the charity's resources are protected in order that the charity 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.

In more detail

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

The aims of internal financial controls are:

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

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

The 'tone at the top' - Executive management and the charity's staff and volunteers are responsible for ensuring that the controls put in place by the trustees are implemented. There should be a culture of control embedded in the operations of the organisation; this culture is created by the trustees and senior management, who should lead by example in adhering to the charity's internal financial controls and good practice.

Review of controls - The trustees should, at least annually, ensure a review is conducted of the effectiveness of the charity's internal financial controls. This should include an assessment of whether the controls are relevant to, and appropriate for, the charity 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, more likely in smaller charities, 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 charities 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 carrying out checks on internal controls independently of the person who normally undertakes the work.

2.2 What is the role of monitoring activities in the system of internal financial controls?

The short answer

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.

In more detail

One of the most important financial monitoring activities is budgetary control, ie monitoring the charity's financial performance against a budget. Proper and realistic estimates of income and expenditure need to be made for each area of the charity's activities for each financial year. From this information the overall budget will be set which should be agreed by the trustees before the start of the financial year to which it relates.

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

Other monitoring activities include a review of expected sources of income and the actual income received. Monitoring can also help to ensure that any restrictions placed on the use of funds are identified and reporting requirement to funders are met.

Financial monitoring may be undertaken by the use of ratio analysis, and the comparison of performance against financial policies, for example, income reserve levels or investment performance. Financial monitoring will also help ensure more basic controls such as bank and other reconciliations are carried out or that authorisation and approval procedures are being complied with.

In larger charities some of these monitoring activities may be undertaken by an internal or external auditor. In such cases, liaison with senior management is important so that the scope of their work and reporting responsibilities are fully understood.

2.3 Should a charity have an internal audit function or audit committee?

The short answer

The nature of internal financial controls implemented will depend on the size of a charity and its activities. As size and complexity increase so does the potential role for an internal audit function and/or an audit committee. It is unlikely that small charities will have the resources to support a separate audit committee although they may establish an internal audit function.

In more detail

The role of internal audit is to look at the effectiveness of a charity's financial controls and to help the trustees and managers identify and assess risks to the charity. Internal audit should also advise on how the charity should manage and monitor risk, and on the completeness of its risk register.

Internal and external auditors have some common interests, in particular checking the operation of the internal control systems, but they have a different overall purpose. The external auditor's focus is primarily on the identification and assessment of the risk of a material error or misstatement in the published accounts.

Reports and management letters prepared by either internal or external auditors identifying weaknesses in internal control should be considered by the trustees and/or the charity's audit committee.

An audit committee's role is to help the trustees meet their responsibilities for risk management, having effective internal controls and the efficient and effective use of funds. An audit committee is therefore part of the financial governance arrangements of a charity. An audit committee acts on the authority delegated to it by the trustees and should therefore have appropriate terms of reference and a clear reporting line to the trustee body.

2.4 How important is the provision and communication of financial information to trustees?

The short answer

Trustees of charities of all sizes need access to accurate and up-to-date financial information to enable them to make proper decisions. Trustees' meetings should be used to communicate information concerning the finances and financial management of the charity. All decisions by the trustees concerning their charity should normally be taken collectively and significant decisions and action points noted in writing.

In more detail

Information should be communicated in a way that enables trustees to carry out their responsibilities and take appropriate actions. The format of the financial information may vary according to the size and complexity of a charity and preferred reporting styles. However, the financial information provided should always be understandable, accurate and timely. Information also needs to be provided regularly to ensure trustees can fulfil their monitoring role.

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

- the latest management accounts
- a comparison of budget to actual figures
- an explanation for variances between forecasts and what actually happened
- details of cash flow and closing bank balances

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

In some larger charities financial information is often discussed beforehand in a finance sub-committee. A sub-committee structure may allow more detailed consideration of particular financial issues but it remains important that all trustees have access to, and are briefed on, key aspects of the charity's financial position and performance. Significant decisions should also be made in the context of the full trustee body. The commission recommend that any finance sub-committee should have agreed terms of reference in place and that the outcome of the sub-committee's work is reported to the full board.

Although the governance structure will vary from charity to charity, the underlying recommendation is that the structure should not be too complex.

2.5 What are the trustees' responsibilities regarding the accounting requirements for their charity?

The short answer (legal requirement)

Trustees have legal responsibilities to keep accounting records, and to prepare an annual report and accounts with the appropriate level of external scrutiny. Trustees must also safeguard their charity's assets and take steps to ensure the charity is protected against financial abuse. Accounting records must be kept for at least six years (or a minimum of three years if a company charity).

In more detail

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
- considering the need for a reserves policy, managing the level of reserves held and the disclosure of any reserves policy in the Trustees' Annual Report
- 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 commission where filing is required by law and, if the charity is a company, also filed with Companies House
- 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 bribery, fraud, financial abuse and other irregularities

The commission recommends that new trustees are given a copy of the latest accounts on appointment, together with other essential documents, such as the commission's guidance on **public benefit**, and the **responsibilities of trustees**, the governing document and the latest management accounts. The commission's guidance **Charity reporting and accounting: the essentials (CC15b)** explains in more details the accounting and reporting duties of trustees.

2.6 What risks do charities face in relation to financial crime and abuse?

The short answer

The incidence of reported financial crime affecting charities is relatively small compared to the size of the sector. However, when it does happen the impact can be great, and so it is important that charities take this risk seriously. The voluntary nature of charities and their nature and areas of work can make them vulnerable to people who want to misuse charities for their own gain. Financial crimes such as bribery, fraud, theft, and money laundering, or the loss of electronic data can result not only in significant loss of charitable funds but also in damage to the public trust and confidence in charities more generally. There is a significant risk to a charity's reputation from association with bribery or the making of 'facilitation payments'.

In more detail

Charities raise, hold, move and use funds in the course of their work. All sectors of the economy are vulnerable to financial crime and abuse, and this includes the charitable sector. Charities are highly valued in society and the very nature of charities can make them attractive targets for criminals. Charities:

- enjoy high levels of public trust and confidence
- often rely on goodwill and voluntary support in one form or another
- often depend on one or two individuals who can play a key or largely unsupervised role in running the charity, particularly in smaller charities
- may have a global presence, including in areas of conflict and/or where there is poor banking infrastructure
- may need to use alternative remittance systems overseas
- may use intermediaries to deliver work which may involve passing funds through agents
- may have branches and/or projects that are not under the direct or regular control or supervision of charity management
- may have unpredictable and unusual income and expenditure streams where suspicious transactions may be harder to identify

Criminals may exploit charities by misappropriating charitable funds through fraud, theft, money laundering or diverting charitable funds from legitimate charitable work. **Chapter 3** of the commission's Protecting charities from harm: compliance toolkit - Fraud and financial crime, identifies 13 areas of risk relating to fraud and financial crime to which charities may be susceptible:

- income-related fraud
- expenditure fraud
- property and investment fraud

- procurement fraud
- fraudulent fundraising in the charity's name
- fraudulent invoicing and grant applications
- identity fraud/theft
- banking fraud
- e-crime (including 'phishing')
- Gift Aid fraud
- share purchase and investment fraud (boiler room fraud)
- mass market fraud (letter or e-mail)
- section '419' (advance fee) frauds

Charities working internationally may be exposed to particular risks inherent in the environment in which they operate. Further information on the particular issues affecting charities operating overseas can be found in the commission's guidance **Charities working internationally**.

There is a risk from financial crime at every stage of a charity's activity: at the point of income generation and fundraising, in the course of the administration of the charity, and when charitable funds are disbursed. Some charities may be at greater risk because of the activities they undertake or their structure, for example, a large number of fundraising branches. However no charity is immune so all charity trustees must ensure that they are aware of and assess the risks and take proper steps to manage them.

As well as the loss of funds, assets or other property and the effect on the morale of charity staff and volunteers, financial crime damages the reputation and public trust and confidence in charities.

Further information about the risk of financial crime, the implications of The Bribery Act 2010 and steps that can be taken to manage risk can be found in the commission's compliance toolkit **Protecting charities from harm**. The Ministry of Justice publication: **The Bribery Act 2010 Guidance** identifies six principles that should inform an effective anti-bribery policy.

To guard against undue influence being exercised over the decisions being taken by trustees, or bribery taking place, transparency is important. Trustees should establish a policy on the acceptance of hospitality by trustees and staff along with a register of hospitality to record incidences of hospitality. Similarly a register of interests should be maintained for trustees and those staff on the charity's senior management team.

The trustees should also have a policy on donations which identifies when the accepting of donations may not be in the interests of the charity. This may be justifiable where the terms of the donation are unduly restrictive or are intended to exercise undue influence over the trustees or where the acceptance of the donation would be detrimental to the charity's reputation.

2.7 How can trustees manage the risks from criminal financial abuse?

The short answer

Trustees need to consider the risk of financial crime and manage those risks. More information on risk assessment and management is contained in **Charities and risk management (CC26)**. The role of internal control in managing identified risk should be understood and followed by all those who work in the charity whether as trustees, employees or volunteers. The nature of the internal controls put in place will vary depending upon the size and complexity of the charity and all charities should consider what is appropriate for them.

Trustees should **report any incidents** of financial crime and abuse that takes place in their charity to the police and the commission. The commission may consider any failure to report these incidents to us to be mismanagement and take regulatory action.

In more detail

The risk from financial fraud and abuse can never be completely ruled out. However, proper and adequate internal financial controls play an important part in managing this risk. Trustees are responsible for the effective administration of the charity and have a legal duty to safeguard charity assets. Funders, donors, supporters and beneficiaries are entitled to expect proper standards of management and financial control. If the charity falls victim to financial crime resulting from trustees not putting adequate financial controls in place, then the trustees will have failed to meet their legal duties to the charity.

When reviewing financial controls to ensure that they are fit for purpose, trustees should take into account changes in the charity's structure, activities and area of operation that could affect the risks to the charity. Changes in the types of threat the charity may face also need to be considered, for example new or emerging methods of fraud, to ensure such risks are properly managed. It can be difficult to identify financial abuse as criminals may be adept at presenting their activities as legitimate and lawful. Establishing the identity and legitimacy of any organisation the charity works with can reduce such risks.

Trustees should also consider how the charity will react to different types of financial crime should they occur. There should be procedures for reporting known or suspected crime or abuse and clarity about how reports of concerns will be investigated.

Adequate training should be provided to staff and volunteers to ensure that they are familiar with the charity's financial controls and know what actions to take if they suspect criminal financial abuse. Staff and volunteers should know how to report their concerns within the organisation, including concerns about the conduct of trustees or senior managers. If trustees know or suspect an individual is misusing the charity for their own purposes or misappropriating charitable funds they should take immediate and appropriate action to resolve the issue.

Charities often rely on computer systems to receive information and store financial data including the bank or credit card details of donors and financial supporters, staff and suppliers. This data is very valuable and its loss could expose the charity and others to the risk of theft, fraud, identity theft and loss. The trustees should have in place appropriate policies governing access, use and storage of electronic information ensuring compliance with Data Protection legislation. Procedures should also include the use of computers, hard drives, USB and data storage devices. The charity should consider protecting its computer systems with anti-spyware, anti-virus, firewalls and similar computer programmes.

Reporting financial abuse to the commission - If it is known or suspected that a charity is a victim of financial crime then this should always be reported to the police and to the commission immediately under the serious incident reporting regime. Please see **Reporting serious incidents** for further guidance.

3. Internal financial controls in practice - income

3.1 What controls should be in place to protect income received in the post?

The short answer

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.

In more detail

The amount of income received by post will vary from one charity to another. Control in this area will be a priority for those charities that receive a significant proportion of their income in the post. Particular risk may arise where a charity receives donations from the public by post and the pattern of giving is not predictable.

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. Whenever practical, the post should be opened in the presence of two unrelated individuals. The rotation of post-opening staff adds a further layer of control. Where a charity has no option but to allow a single individual to open the post, the trustees should consider the need to implement other controls, for example, comparison of donations with past periods or receipts from previous appeals.

3.2 What controls should be in place for income from public collections and fundraising events?

The short answer (legal requirement)

Charities that undertake public collections and fundraising events should ensure that they have as much control as possible over what could be a widespread network of fundraising efforts. Charities must comply with the legal requirements on public collections and working with external fundraisers.

In more detail

It is important that the trustees ensure that the activities are undertaken in accordance with the various statutory regulations which cover public collections. For example, licensing arrangements must be made in advance with the appropriate local authorities. The commission's guidance **Charities and fundraising (CC20)** explains the legislative framework within which the trustees must operate when raising funds from the public.

The commission recommends that the following internal financial controls are in place:

- at least two people are involved in handling and recording the money received
- collection boxes are individually numbered and their issue and return is recorded
- 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 charity as soon as possible without deduction of expenses

For fundraising and sponsored events the commission recommends 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:
  - (i) that tickets all are pre-numbered
  - (ii) 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
  - (iii) a record is kept of which tickets have been sold
  - (iv) all money from tickets and any unsold tickets are collected
  - (v) a reconciliation is made of receipts against tickets sold

Where external fundraisers are engaged, the trustees must comply with the requirements of Part II of the Charities Act 1992 (**Charities and fundraising (CC20)** gives further details).

3.3 What controls should operate under the Gift Aid scheme?

The short answer (legal requirement)

Donations made under Gift Aid are treated as if the donor had already deducted basic rate tax from them. The charity can then reclaim this tax to increase the value of a donation. Internal controls help ensure complete and accurate returns are made maximising the value of donations to the charity.

In more detail

Maximising the value of donations is important for all charities. Internal controls ensure that proper records are maintained reducing the risk of amounts being reclaimed by Her Majesty's Revenue and Customs (HMRC). Accurate records and timely returns ensure the charity receives the tax recovery promptly and with confidence. Full details of the records that must be maintained are set out on the **HMRC's website**. Other controls recommended include:

- checks to ensure that amounts expected from committed donors have been received
- checks to ensure tax repayments due have been received

3.4 What controls should the charity put in place over legacy income?

The short answer

Significant time can elapse between the notification of a legacy and its final receipt. Internal financial controls should be directed at ensuring that all legacy income to which the charity is entitled is actually received and properly recorded in the accounting records.

In more detail

Records should be maintained of all legacies notified to the charity. Agents can also be used to check probate records to ensure that a charity is aware of all legacies to which it may be entitled. Control procedures should ensure that:

- legacies to which the charity is entitled are recorded in accounting records
- adequate correspondence files are maintained
- regular reviews of progress on collection of outstanding legacies
- chattels and property received are held securely, valued and sold or realised

3.5 What controls are needed to identify 'tainted charity donations'?

The short answer (legal requirement)

The Finance Act 2011 introduces new rules on 'tainted charity donations'. On implementation of the provisions of the Finance Act 2011, the 'substantial donations' provisions no longer apply.

In more detail

Charities must be aware of the rules of, and their responsibilities towards, tax legislation on tainted charity donations. Section 27 and schedule 3 of the Finance Act 2011 introduces new legislation to counter the abuse arising whereby a donor gets relief from tax, only for the capital or a benefit from the donation to end up back in the hands of the donor. These new rules became effective from 1 April 2011 and replaced the substantial donor provisions.

Although the regime is intended to affect the tax position of the donor, should the charity have claimed a repayment of tax on the gift, an income tax charge will arise on that repayment. The charity itself may be liable for this charge if the charity was a party to, or aware that, the main purpose or one of the main purposes of the arrangements was to provide financial advantage to the donor.

Further information on tainted charity donations is available on the **HMRC website**.

3.6 What controls should be in place for trading income?

The short answer

Trading includes all goods and services provided for a fee and can include charitable activities where fees are charged, as well as those trading activities that raise funds for the charity. Controls should be designed to ensure that all income due to the charity is received and recorded.

In more detail

Controls will depend on the type of the trading activity carried on by the charity or its subsidiaries. Controls should generally include:

- regular reviews of trading activities to ensure that they fall within tax exemptions
- establishing a pricing policy for goods and services supplied including regular reviews of pricing structures to ensure appropriate cost recoveries
- invoicing procedures for all goods and services provided
- review of outstanding debts and debt collection procedures
- stock control procedures
- procedures to reconcile amounts invoiced and cash received to outstanding invoices

Trustees, trading and tax: how charities may lawfully trade (CC35) gives further guidance on trading activities.

3.7 What controls are required over the charity's banking and custody procedures?

The short answer

Controls should ensure that the cheques and cash received are kept securely, banked promptly and recorded in the accounting records.

In more detail

The following controls should help ensure a basic level of protection for the charity's funds:

- cheque and cash receipts should be promptly recorded in the accounting records
- cheques and cash should be banked regularly and promptly
- 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 for costs or expenses
- insurance cover for cash in hand and in transit should be considered

3.8 What checks should the charity undertake on income records?

The short answer

It is important that trustees make regular checks to ensure that the accounting records of income are being accurately maintained.

In more detail

Certain basic controls, if performed regularly, may serve as an early warning of anything going wrong. The commission recommends that regular checks are made to ensure that:

- 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

These checks should be made by someone other than the person concerned with the original recording of the transactions.

4. Internal financial controls in practice - purchases, payments and loans

4.1 What controls should be in place for the authorisation of expenditure on goods and services?

The short answer

Controls help ensure that purchases have been authorised, and that the goods or services ordered have actually been received.

In more detail

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 the goods and services actually received and at the agreed prices. The commission recommends 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 the price paid and the receipt of the goods or services ordered

4.2 What controls should be in place for the authorisation of expenditure on grants?

The short answer

Charities that make grants to individuals or organisations should take steps to ensure that their grant payments further their charitable purposes and that the funding is used appropriately by recipients.

In more detail

Controls should focus on ensuring that grant payments further the purposes of the charity and that funding is used by the recipients for the purposes for which it was given. Controls can help manage the risk of inappropriate payments and help ensure that grants are made in line with the objectives and policies of the grant-making charity. The commission recommends that controls over grant making should include:

- the development of grant-making polices setting out the conditions and any restrictions applying to grants awarded. Policies may set priorities for activities or projects to be funded
- procedures for the review and approval of grant applications. Controls should include checks on the integrity of organisations or individuals to be funded
- establishing monitoring procedures to ensure grants have been used for the agreed purposes

4.3 What controls should be in place for payments by cheque?

The short answer

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

In more detail

Previous sections of this guidance have dealt with controls over placing orders and the approval of payments. Controls also 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. Some charities may allow for small-value cheques to be signed by only one individual. In larger charities signatories may be senior employees although in such cases clear authority limits should apply. In all cases there are a number of basic controls that should be in place, including:

- 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

4.4 What controls should be in place for payments by debit card, credit card and charge cards?

The short answer

Increasingly charities are making payments using corporate debit cards, credit cards and charge cards. These payment cards can provide convenience but it is important that controls are in place to ensure their correct use.

In more detail

Debit cards charge bank accounts directly and payments therefore have an immediate impact on bank balances; their misuse or loss can be extremely serious for the charity. Credit and charge card payments are invoiced monthly and there is some ability to intervene in the case of misuse, but controls still need to be in place over their use.

Used properly these methods of payment are generally considered to be safe, but the commission recommends that certain controls are put in place, including:

- setting a clear policy for the use of payments cards, the criteria for their issue, spending limits and their security
- considering the need to place restrictions on, for instance, the types of retailers where the cards may be used, eg blocking their use in restaurants, food retailers or on certain websites

- communicating the policy for the use of payment cards clearly, in writing, to all trustees and staff using them
- ensuring payments cards are cancelled and destroyed, if the individual ceases to work for the charity or if the authorisation of the card's use is withdrawn
- ensuring that debit card expenditure is supported by a voucher and/or invoice and recorded and analysed in accounting records
- copies of all credit or charge card statements being sent directly to the charity's finance team and not the individual card holder. The statements are used to record and analyse transactions in the accounting records and are matched with supporting vouchers and invoices provided to, or obtained by, holders of cards
- periodic review of card use to ensure consistency of use with set policies

For controls on e-banking arrangement, including payments, see section 4.4 of this guidance.

4.5 What controls should be in place for payments by direct debit, standing order and Bankers' Automated Clearing Services (BACS) direct credit?

The short answer

Charities may also make payments by direct debit, standing order and BACS direct credit. 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 charity. Controls should ensure that payments are only made when authorised and that payments are accurately recorded in the accounting records.

In more detail

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 so doing.

BACS Direct Credit 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 charity 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.

Banks have developed software that allows charities to provide for more than one person to authorise payments. Such dual-authority options (for example a facility for Unity Trust Bank's customers via Unity e-Payment) require two users to complete a BACS transaction. Charities should ask their own banking provider for details of their own similar dual-authority options.

Charities should ensure that only specifically authorised individuals are able to set up arrangements to make payments by direct debit, standing order or BACS. This authority should be limited to a small number of people with a list of authorised individuals drawn up and retained. The documents setting up the payments should be retained as part of the charity's accounting records. The payments should be monitored so that the charity can ensure that the arrangement is cancelled when the charity stops using the goods or services being supplied.

4.6 What controls are in place over payments in cash?

The short answer

Payments in cash should be kept to a minimum due to the greater risk that handling cash presents and difficulties that can arise in establishing correctness and control over significant cash transactions.

In more detail

Where payments are made in cash the commission recommends that:

- cash payments are 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

Similar considerations apply to the use of cards which are preloaded with cash where cash withdrawals are made by using a PIN at a cash point or similar facility.

Cash withdrawals should be reviewed for authorisation and correctness by someone other than the person who withdrew the cash.

4.7 What controls should be put in place for wages and salaries?

The short answer (legal requirement)

The payment of wages and salaries is often a major item of a charity's expenditure, and therefore adequate control over their payment is essential. The main purpose of the internal financial controls is to provide assurance that the charity makes payments at the correct rate to genuine employees of the charity and payment of pension contributions.

The controls should also ensure that the charity is not exposed to additional liabilities resulting from a breach of statutory regulations, for example through failing to deduct and account for tax and national insurance contributions through the PAYE system.

In more detail

There are a number of legal requirements in this area and trustees must ensure that:

- the records required by HMRC of PAYE deducted from the wages and salaries of employees are maintained
- statutory deductions are paid to HMRC as required and pension contributions paid across to the pensions provider promptly
- deadlines for year-end returns to HMRC are met including P35, P11D and P60 or the data required for 'real time information' submissions to HMRC are complete and submitted on a timely basis

- minimum wage legislation is adhered to
- only authorised or required deductions are made from pay
- each employee has a proper contract of employment and that individuals are not incorrectly classified as self-employed
- legal obligations in relation to pension scheme arrangements are met

Currently all employers must provide access to a stakeholder pension unless it offers either an occupational or an alternative suitable personal pension scheme. The terms of any such alternative personal pension scheme must meet minimum standards set by the government. Charities should also be aware of the changes to pensions including automatic enrolment which are being phased in from October 2012. The Pension Service of the Department of Work and Pensions has further information on **employers' responsibilities and on future reforms**.

In addition to legal requirements which must be met, there are a number of good practice recommendations that can limit the risk of incorrect payment, including:

- holding personnel records for each member of staff separately from the pay records with periodic checks between these records to prevent payments to people who are no longer employees
- systems for authorising, recording and notifying those operating the payroll of starters and leavers, changes to pay, hours, overtime or non-standard hours, staff sickness or staff maternity or paternity leave promptly
- procedures for setting rates of remuneration for all staff ensuring that no individual has authority to set his or her own remuneration or terms of employment
- paying wages and salaries by BACS, where staff numbers make this worthwhile, as it is a safe and efficient way of making payments to staff

4.8 How should the charity control the payment and reimbursements of expenses?

The short answer

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

In more detail

To ensure that the charity only reimburses legitimate expenses properly incurred on its behalf, the policy should clarify whether the charity pays expenses for travel, hotel, conference, business, training and out-of-pocket expenses, and, if so, on what terms. For example whether staff travel is restricted to economy or second class travel.

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, eg hotel costs on a bed and breakfast basis for single occupancy are only reimbursed on production of original receipts to a maximum of £xx a night.

The commission also recommends that:

- 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

Unless a dispensation has been granted by HMRC, a Form P11d will need to be completed and filed with HMRC detailing expense payments and benefits received by each staff member earning £8,500 or more. Further guidance is available from **HMRC website**.

4.9 What controls should be put in place for the taking out of loans including trustee loans?

The short answer

Loans can be an important source of finance for a charity. Loans may be used by a charity to purchase new assets or to enable a charity to continue to operate until new income becomes available. It is important that trustees ensure that when taking out of a loan that they are fully aware of all its terms and that the loan is in the interests of the charity. Trustees should also ensure that the charity is able to meet the repayments of principal and interest as they fall due before taking out the loan.

In more detail

The commission recommends that:

- all loans are documented and that the amount of the loan and any charges and interest due are clearly set out
- a record of all outstanding loans is kept noting the history of repayments of principal and interest for each loan and the outstanding balance
- where a loan is advanced by a trustee, any conflict of interest is noted and properly managed, that the terms of the loan are in the charity's interests and should a rate of interest be charged that exceeds the prevailing Bank of England Bank Rate (also known as the base rate) that rate is justifiable
- if a loan is secured or subject to bank covenants , the terms of the security or bank covenants are in the interests of the charity and appropriate details are logged on the register of assets
- the charity has in place a plan to meet the repayment of principal and interest on the loan as they fall due

4.10 What checks should the charity carry out on expenditure records?

The short answer

As with controls over income, it is important to ensure that records of expenditure are being accurately maintained. Basic controls in this area can also serve as an early warning of poor accounting practice and help identify any unauthorised payments.

In more detail

The commission recommends that:

- records of payments (including direct debit, BACS, or standing orders) are checked periodically to cheque stubs, credit card statements or bank statements - these checks may often be carried out as part of the bank reconciliation processes (see section 5.3)
- 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 (see section 5.6

These checks should be made by someone other than the person concerned with the original recording of the transactions.

5. Internal financial controls in practice - assets and investments

5.1 What controls should be in place over fixed assets used by the charity (functional assets)?

The short answer

Functional fixed assets include land, buildings, vehicles, fixtures and fittings, and equipment which are used in the charity's activities. The purpose of controls over fixed assets is to ensure that assets can be identified, recorded in accounting records and are used for the charity's purposes.

In more detail

The trustees of a charity have a duty to safeguard the assets of the charity from loss or damage and to ensure their proper use within the charity. The commission recommends that:

- a financial threshold should be set for the capitalisation of expenditure on fixed assets within the accounting records
- a list or register should be maintained of all assets whether purchased by, or donated to, the charity for its continuing use. 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

5.2 What controls are needed over investments?

The short answer

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. Charities may also hold endowed funds which are invested to provide income. It is important that the trustees make sure these investments are safeguarded.

In more detail

Trustees' powers and duties relating to financial investments are included in the Trustee Act 2000 or company law and explained in **Charities and investment matters: a guide for trustees (CC14)** which also covers programme related and mixed motive investments. There are a number of important financial controls including:

- trustees setting an investment policy
- programme related investments are made solely to further the charity's charitable aims, the terms are documented and for any loan advanced a repayment schedule is in place

- when making 'mixed motive' investments the trustees are clear at the outset on the balance between obtaining a financial return and furthering the charity's charitable aims and record the basis upon which the investment is made, and the anticipated financial return
- 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 charity
- taking professional advice, where the trustees do not have the necessary expertise, before selecting or disposing of investments
- regular review of investment performance
- regular inspection of any investment properties to ensure adherence to tenant covenants
- maintaining records of all investments held (including details of all those sold or purchased) by the charity
- 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 recorded

5.3 What controls are needed over cash held on deposit?

The short answer

The financial controls over cash held in bank and building society current accounts and deposit accounts provide assurance as to the security of cash holdings and ensure that the amount of cash held, at any one point in time, can be identified.

In more detail

Accounts held with banks and building societies authorised by the Financial Services Authority are protected in the event of their failure by the **Financial Services Compensation Scheme** for deposits of up to £85,000. Internal controls provide security in areas not covered by the compensation scheme such as inappropriate use of bank accounts. section 3 of this guidance provides recommendations on safeguarding the receipt and recording of income and section 4 addresses controls over expenditure. Controls are also recommended to help prevent the unauthorised opening or closure of bank accounts and to help ensure the reliability of accounting records for cash transactions.

The commission recommends that:

- 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
- if acting as an intermediary to transfer funds on behalf of another charity, the trustees are satisfied that the transaction is to further a charitable activity and does not constitute money laundering
- 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
- third parties should not be allowed to open bank accounts in the charity's name, or use the charity'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 deposit taking institution is acceptable

5.4 Can charities use electronic banking?

The short answer

Yes. Many organisations, including charities, find 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.

In more detail

Electronic banking is increasingly used by charities as a convenient way to manage their transactions. Where electronic banking is used, the same level of internal financial controls should be in place as for more traditional forms of banking, for example:

- there should continue to 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 (eg allowing payments to be made only into previously authorised nominated accounts). The level of risk arising from single authorisation online banking means that the commission does not recommend this system is used by charities
- 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, the commission recommends that charities banking online use a dual authorisation system

One example of a multiple authorisation system is the Internet Banking Service, developed by Unity Trust Bank, which has a 'dual authority' or 'triple authority' option. With these options one user submits a transaction and one or two additional users will then authorise it from a 'pending transactions screen'.

Charities 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 to put in place including:

- after each electronic banking transaction, a print out should be taken showing details of the transaction and stored as part of the accounting record
- 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

5.5 Can charities use non-traditional banking methods?

The short answer

Some charities work in environments where the use of non-traditional banking methods is common. In such cases it's recognised that charities may need to use these methods if banking facilities are not available. They are, however, more inherently risky than traditional banking methods and, therefore, trustees need to ensure that these risks are mitigated.

In more detail

Some charities use alternative banking methods, rather than traditional, or electronic banking in areas where banking facilities are not available and urgent needs have to be met. These methods include the use of money transfer facilities to transfer funds (in the high street or via the internet), 'hawala' banking (used in Muslim communities), 'chiti' banking (used in Hindu communities), 'chop-shop' (used in Chinese communities), 'fei-ch'ien' and 'hui kun' (used in South East Asia) and the transfer of funds facilitated by mobile telephones (used in some African countries) or by multi-function handsets.

There are also other ways of making payments, ie through internet service providers, or by using a contactless ('wave and pay') payment card, which uses chip-and-pin technology to enable payments to be made from cards which have already been credited with cash. Contactless payment is also being developed using mobile telephones and adapted tills or scanners. In certain countries mobile phone operators act as intermediaries. For a fee they will permit an account holder to purchase items using their mobile phone account at registered retailers, draw cash via the operator's local offices and registered outlets, or transfer cash to third parties by way of 'mobile money credits'.

With these banking methods it is generally the case that the transaction is complete as soon as the money is paid out or picked up at the other end and that after it has been paid out it cannot be recovered. These payment methods lack the safeguards that exist with traditional 'high street' banking to prevent fraud or to recover funds that have been lost. In order to mitigate the extra risks of fraudulent transactions the charity should:

- carry out adequate due diligence checks to ensure the person or entity to which it is sending money is known and trustworthy

- ensure funds transferred by such methods are strictly limited to meeting essential needs where conventional banking systems cannot be used
- avoid, where practical, making subsequent transfers until receipt of a previous transfer can be confirmed by the intended recipient

With all alternative banking methods the traditional paper audit trail evidencing the completed transaction is absent or incomplete. Nevertheless introducing internal financial controls and documentation of the transaction can help to limit risk and provide some audit trail. The commission recommends that:

- the policy and the circumstances when such methods may be used should be documented and agreed by the trustees
- expenditure should be subject to the same authorisation procedures as for traditional bank payments
- an audit trail should be kept for each transaction including payment vouchers (equivalent to cheques) and post transaction documentation (equivalent to bank statements) providing details of the intermediary's name and address, amount and date of payment, and the name of the person making the payment, the fee charged and the payee

5.6 Why are controls over restricted funds and endowment funds important?

The short answer

The trustees need to ensure that controls exist to provide assurance that any restricted funds are spent only on the purposes for which they were given. The controls also need to provide assurance that endowed funds are properly invested and any prohibition on their expenditure observed.

In more detail

It is important that procedures exist to record the nature of any restrictions or conditions placed on income received. Some charities choose to operate separate budgets, purchasing systems and bank accounts for significant restricted funds. Whatever internal accounting arrangements are used, it is important that controls are put in place to ensure expenditure from restricted funds is limited to the purposes of the gift. For example, approval of expenditure from restricted funds may be limited to particular budget holders or staff.

A charity may also have endowment funds which may either be a permanent endowment where there is no power to spend the capital or an expendable endowment where trustees have the power to convert endowment funds into expendable income. Where expendable endowment is released to be spent as income this must be authorised by the trustees.

Holding permanent endowment does not however necessarily mean that the investments held in the fund cannot be sold. However, it does mean that the amounts so realised, including gains, must be reinvested and held within the fund. Controls are therefore needed to ensure that the proceeds of investment sales are reinvested and that income from investments is applied in line with the terms of the endowment. Payments relating to the maintenance of endowment, such as investment management fees relating to the endowment fund must also be met from the endowed fund.

Charities may also apply to **spend permanent endowment**.

6. Further information, advice and resources

6.1 Internal financial controls checklists

This guidance should be read in conjunction with the accompanying internal financial controls checklist. The checklist provides a summary of the key internal financial controls which can be used by trustees when reviewing the controls operating within their own charity.

A more detailed internal financial controls checklist is contained in:

- Tracey Hassell, The Charity Finance Charities Internal Controls Checklist (2nd edn)

Copies can be ordered online from the **Civil Society Shop website**.

6.2 Further advice on policies on fraud and whistle-blowing

For more information on the key issues to be covered by a fraud policy, a fraud action and response plan, and a whistle-blowing policy refer to **chapter 3 'Fraud and financial crime' of the compliance toolkit**.

6.3 Other publications

For trustees who wish to understand the role of financial internal controls within the wider governance role of trustee boards, the commission strongly recommends reading:

- The Code of Good Governance

This code was developed by a steering group representing National Council for Voluntary Organisations (NCVO), Association of Chief Executives of Voluntary Organisations (ACEVO), Charity Trustee Networks and Institute of Chartered Secretaries and Administrators (ICSA), with support and advice from the commission and can be downloaded from the **NCVO website**.

For trustees who wish to have a detailed understanding of the operation of internal controls in the context of large organisations should refer to:

- Internal Control: Guidance for Directors on the Combined Code (The Turnbull Guidance)

Turnbull sets out best practice for listed companies but his recommendations may have relevance for those with governance responsibilities in larger charities. Copies of this guidance can be downloaded from the Financial Reporting Council's website. (**www.frc.org.uk/corporate/internalcontrol.cfm**)

Other authoritative sources of further information on internal controls include:

- The 'Internal Control - Integrated Framework' developed by the Committee on Sponsoring Organizations of the Treadway Commission (COSO)

Further information on the COSO framework is available on **www.coso.org**.

6.4 The role of the treasurer and trustees

The role on the charity treasurer is explained in the NCVO publication:

- The Honorary Treasurer's Handbook: A Guide to Strengthening Financial Accountability which can be ordered from **NCVO**

ICSA has also published a useful guide on the role of a trustee:

- The ICSA Charity Trustee's Guide, which can be ordered from ICSA **online**

6.5 Criminal financial abuse (fraud, theft, money laundering)

Fraud and theft

The Government has a number of initiatives in the area of fraud such as the **National Crime Agency (NCA)** and other related work streams (ie National Fraud Reporting Centre). Established on 1 October 2008, the aim of NCA is to initiate, co-ordinate and communicate on counter-fraud activity across the private and public sector.

The **Fraud Act 2006** is available on the website of the Office of Public Sector Information. **The Fraud Advisory Panel website** includes details of measures to protect against fraud. In February 2009 the Fraud Advisory Panel published an Occasional Paper on **Fraud in the charitable sector** and an investigation into the incidence, origins and impact of fraud on the charitable sector, **Breach of Trust**

Money laundering

Money laundering legislation in the UK is governed by three Acts of primary legislation:

- **The Terrorism Act 2000**
- **The Anti-Terrorist Crime and Security Act 2001**
- **The Proceeds of Crime Act 2002**

Secondary legislation is provided by the Money Laundering Regulations **2003** and **2007**

The intergovernmental Financial Action Task Force (FATF) has produced guidance on anti-money laundering issues which may be accessed on its **website**

Bribery

The Bribery Act 2010 created four new offences and the provisions of the Act applying to individuals and commercial organisations, including charities. As a matter of general principle and to comply with the trustees' legal duties, trustees should avoid any situation where there is an expectation of a gift or payment in return for an advantage of any kind. Charity trustees will need to use their judgment and their knowledge of their charities' activities, and of the country they are operating in, to decide upon appropriate anti-bribery procedures which are proportionate to the risks faced by the charity.

Small bribes paid to speed up a service are sometimes called facilitation payments. Some charities work in areas where such payments are the norm in the local culture, often where charitable need is extreme. The Ministry of Justice (MOJ) guidance confirms that, notwithstanding the small amounts usually involved, they are still bribery payments. Therefore, they are an unacceptable use of charity funds

For more information see the **Quick Start Guide to the Bribery Act 2010** on the Ministry of Justice website.

6.6 Electronic banking

The **British Bankers' Association** provides information and advice on electronic banking. For advice on online security generally see the websites **Get Safe Online** and **Bank Safe Online**. For advice on protecting against the fraudulent use of credit cards, debit cards and charge cards see the website **Card Watch**.

6.7 Gift Aid

The HMRC website includes information on **Gift Aid** and on the **audit of Gift Aid claims**.

6.8 The audit

For the role of external auditors in relation to internal financial controls see:

- The Auditing Practices Board **Practice Note 11 The Audit of Charities in the United Kingdom (revised December 2008)**

Information about the role of internal audit is available on:

- The Institute of Internal Auditors in the UK and Ireland **website**

The websites of the member bodies of the **Consultative Committee of Accounting Bodies** are a good source of information on a variety of financial issues. They are:

- **Institute of Chartered Accountants of England and Wales**
- **Institute of Chartered Accountants of Scotland**
- **Institute of Chartered Accountants of Ireland**
- **Association of Chartered Certified Accountants**
- **Chartered Association of Management Accountants**
- **Chartered Institute of Public Finance Accountants**