

The importance of having a Financial Controls Policy and dual bank account signatories.

This is relevant to all applicants, charity, community group, S/E etc

As part of the due diligence process for Suffolk Community Foundations donors, we always adhere to the good practice guidance promoted by the Charities Commission. This document explains why we require management accounts and dual signatories for bank account withdrawals, for all grant applications.

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

Executive management and a charity's staff and volunteers are responsible for ensuring that the controls put in place by Trustees are implemented. There should be a culture of robust financial 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. 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 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.**

Management accounts

The charity should have procedures for sharing monthly or periodic financial information (usually called management accounts) 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.

The financial information should be sent to each Trustee before every 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

Management accounts will be requested by the foundation to assess a grant application, if the latest accounts are more than 6 months old.

Dual signatories

You must have a bank account in the name of the organisation. All signatories should be unrelated and live at different addresses. All transactions (including on-line transactions) should require at least 2 signatories.

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 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.

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

- at least 2 people are involved in handling and recording the money received
- If there is no provision in the governing document which relates to the operation of bank accounts, the bank mandate must specify at least 2 Trustees as signatories, unless the charity Trustees can reasonably claim that some other regime must be followed as a matter of operational necessity. (It is always advisable to have a 'pool' of people authorised which is greater in number than the minimum number of signatures required on the mandate. This can prevent a situation arising where insufficient signatories are available, e.g. during popular holiday periods. All people in the 'pool' must, of course, either be Trustees or be otherwise qualified to authorise/sign.)
- All bank transfers should be made by someone other than the person concerned with the original recording of transactions.
- In the case of withdrawals made via online banking, the Foundation requires there to be two independent people involved in the actual processing of payments online by having a dual authorisation system.

For full details please refer to: Charity Commission Internal Financial controls for charities (CC8) –

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