



Financial Controls for Small Organisations

(December 2012)

A voluntary/community group is set up for the 'public good'. Therefore it wants to be able to show that it uses any money it receives appropriately. However very often arguments and accusations about money, even if unfounded, can seriously damage the reputation of the organisation and the people running it. The buck for control of financial affairs stops with the committee. If the organisation is a charity and/or a company then there are other legal responsibilities on the trustees and directors. A lack of financial control could lead to fraud or expensive mistakes being made or unauthorised spending. Signs of weak control, and so more likelihood of things going wrong, include:

- Trustees/committee members not understanding their financial responsibilities
- Lack of reporting to the trustees/committee members
- Decisions taken by inappropriate people
- Disputes within the organisation about the future direction of the organisation (so the group's resources are used on inappropriate activities)
- Lack of formal financial procedures

When things go wrong financially very often there are allegations made, both internally and externally, about fraud and malpractice. Therefore it is good practice to have written procedures for handling, recording and reporting on money matters, which are regularly reviewed. Any such procedure won't guarantee total protection but it will help minimise and protect trustees/committee members from accusations of poor management (as long as they make sure the procedure is being followed!).

Below is an example of such a policy for small organisations. However it will need to be 'tweaked' depending on how you operate, but remember some basic principles:

- Not to allow one person to have sole responsibility (to protect them and the organisation)
- Always have some documentation to support spending and income
- Try to use a bank account to record all income and spending
- Try to set up regular checks

Sample Policy

(adapted from an article published by CASH: www.cash-online.org.uk/cashfacts/controls)

1. Introduction

1.1 Financial records will be kept so that *Anyorg* can:

- a. Meet its legal and other obligations, e.g., Charities Acts, Inland Revenue, Customs & Excise, Companies Act, Common Law.
- b. Enable the Trustees/Committee members to have control of the organisations finances.

- c. Enable the organisation to meet contractual obligations and the requirements of funding bodies.
 - 1.2 The organisation will keep proper books of account (which may be electronic) and appropriate backups, which will include:
 - a. A cash book analysing all the transactions in the organisation's bank account(s) detailing any transactions relating to restricted funds.
 - b. A petty cash book if cash purchases are being made.
 - c. Inland Revenue deduction cards P11 (if registered for PAYE)
 - 1.3 The financial year for *Anyorg* will end on day/month.
 - 1.4 Accounts (*and Trustees Annual Report if a charity*) will be drawn up after each financial year within 3 months of the end of the year and presented to the next Annual General Meeting.
 - 1.5 Before the start of each financial year, the Committee will approve a budgeted income and expenditure account for the following year.
 - 1.6 The committee will receive regular financial reports in an agreed format that is understandable, accurate and timely, to be sent to members at least 7 days before the meeting.
 - 1.7 A paper comparing actual income and expenditure with the budget, with explanations of any significant differences, will be presented to the Committee every 3 months as a minimum.
 - 1.8 The AGM will appoint an appropriately qualified auditor/independent examiner to audit/examine the accounts for presentation to the next AGM.
- 2. Bank**
- 2.1 *Anyorg* will bank with the Anybank Bank at its Anyroad branch where the accounts will be held in the name of *Anyorg*. The following accounts will be maintained: Current, Reserve, and any other project accounts as agreed and approved by the *Anyorg* Committee.
 - 2.2 The bank mandate (list of people who can sign cheques on the organisation's behalf) will always be approved and minuted by the Committee as will all changes to it.
 - 2.3 *Anyorg* will require the bank to provide statements every month and these will be reconciled with the cash book every month. The Treasurer or another committee member (if the reconciliation is carried out by the Treasurer) will spot check that this reconciliation has been done at least twice a year, and report to the full committee.
 - 2.4 *Anyorg* will not use any other bank or financial institution or use overdraft facilities or invest speculatively unless authorised, approved and minuted by the Committee.

3. Receipts (income)

The aim is to demonstrate that *Anyorg* has received all the income to which it is entitled and that it is all reasonably evidenced.

- 3.1 All cash income will be banked as soon as possible without deduction of expenses.
- 3.2 All monies received will be recorded promptly in the cash analysis book and banked without delay (note this includes sundry receipts such as payments for telephone calls, photocopying, etc.). The organisation will maintain files of documentation i.e. letters from funding bodies to back this up.
- 3.3 Money from each fundraising event and collection boxes will be counted in the presence of two people and separately recorded.
- 3.4 Any unbanked cheques or income will be securely stored.

4. Payments (expenditure)

The aim is to ensure that all expenditure is on *Anyorg's* business and is properly authorised and that this can be demonstrated. The latest approved budget provides the cheque signatories with authority to spend up to the budgeted expenditure, not beyond it.

- 4.1 Payments in cash should be kept to a minimum and generally for small amounts through the petty cash system. Otherwise all payments should be by cheque.
- 4.2 X will be responsible for holding the cheque book (unused and partly used cheque books) which should be kept under lock and key.
- 4.3 Blank cheques will **NEVER** be signed.
- 4.4 Whenever possible, the same person should not be responsible for ordering, processing and checking invoices as well as raising cheque requisitions, signing cheques and payments.
- 4.5 The relevant payee's name will always be written on the cheque before signature, the cheque stub will always be filled in.
- 4.6 No cheques will be signed without original documentation.
- 4.7 Money will only be spent to meet conditions and requirements of the funding bodies and in pursuance of the Objectives of the Constitution.
- 4.8 The signatories shall not approve an overspend on a particular budget heading of more than 10% unless this approval should be written down, signed by both people approving it, and reported to the next Committee meeting.
- 4.9 Cheques up to £X may be signed by Y and Z, and up to £A by B and C.

5. Payment Documentation

- 5.1 Every payment out of the organisations bank amounts will be supported by an original invoice (never against a supplier's statement or final demand). That original will be filed and kept for seven years. The person who signs the cheque should ensure that the invoice is referenced with:
- Cheque number
 - Date cheque drawn
 - Amount of cheque
- 5.2 The only exceptions to cheques not being supported by an original invoice would be for such items as advanced booking fees for a future course, VAT, etc. Here a cheque requisition form will be used and a photocopy of the cheque kept.
- 5.3 Wages and Salaries - There will be a clear trail to show the authority and reason for payment e.g. copy of payslip, copy of PAYE payment, a cheque requisition slip showing who has authorised the payment and what it was for i.e. salary, temporary work, Inland Revenue, etc. All employees will be paid within the PAYE and National Insurance rules.
- 5.4 All staff appointments will be authorised by the Committee, minuting the dates and salary level. Similarly, all changes in hours and other payments such as overtime, etc. will be authorised by the Committee/Line Manager.
- 5.5 Petty cash will always be maintained on the imprest system whereby a named individual is trusted with a float as agreed by the Committee. When that is more or less expended, a cheque will be drawn for sufficient bringing up the float to the agreed sum (currently agreed at £Y), the cheque being supported by a complete set of expenditure vouchers and when possible receipts, totalling the amount spent, analysed as required and authorised by the line manager /Treasurer. The manager/treasurer will spot check the float at least once a year.
- 5.6 Expenses/Allowances - *Anyorg* will, if asked, reimburse expenditure paid for personally by staff/volunteers/committee members, providing:
- Fares are evidenced by tickets (where possible).
 - Other expenditure is evidenced by original receipts.
 - Mileage is based on a rate agreed by the Committee up to the tax free maximum allowed by HMRC.

6. Cheque Signatures, use of cards and electronic banking

- 6.1 Each cheque will be signed by at least two people (preferably unrelated).
- 6.2 No cheque must be signed by the person to whom it is payable or connected to personally or through a business relationship.
- 6.3 If *Anyorg* applies for debit, credit or charge card then a policy on each card's use will be agreed by the Committee including keeping it secure, any restriction on user, maximum amount per transaction, types of retailers, cancellation/

destroying, etc. Evidence of each transaction must be obtained and recorded in the cash book.

- 6.4 If electronic banking is used for payments then a double authorisation system must be used and a print off filed with other evidence of expenditure. Any computer must be secure, with appropriate up to date security software installed, and passwords/PINs kept secret and periodically changed.

7. Other Undertakings

- 7.1 *Anyorg* does not accept liability for any financial commitment unless properly authorised. Any orders placed or undertakings given, the financial consequences of which are, prima facia, likely to exceed in total £X must be authorised and minuted by the Committee. In exceptional circumstances such undertakings can be made with the Chair's approval who will then provide full details to the next Committee meeting. (This covers such items as new service contracts, office equipment, purchase and hire).
- 7.2 All fund raising and grant applications undertaken on behalf of *Anyorg* will be done in the name of the organisation with prior approval of the Committee or in urgent situations the approval of the Chair who will provide full details to the next Committee meeting.

8. Confidentiality

- 8.1 The confidentiality of employees' financial circumstances will be respected at all times.
- 8.2 Committee members, volunteers and employees will at all times act in the best interest of the organisation and if they experience a conflict of interest they will not divulge sensitive information.

9. Other rules

- 9.1 The Committee will consider the level of reserves that is prudent for the *Anyorg* to have at its first meeting after the AGM and detail this in its Reserves Policy. Consideration will be given to redundancy liabilities, lease agreements and any other significant factors that should be taken into account were the *Anyorg* to close.
- 9.2 *Anyorg* will maintain adequate insurance to protect its assets including equipment, cash in hand and transit as appropriate. It will review insurance cover each year.
- 9.3 *Anyorg* will adhere to good practice in relation to its finances at all times, e.g. when relevant it will set up and maintain a fixed asset register stating the date of purchase, cost, serial numbers and normal location of the asset(s). If it holds stocks of goods, e.g. books, etc., of significant value, it will maintain proper records.
- 9.4 Any incidence of theft or other financial crime or abuse will be reported to the appropriate authorities.

9.5 These controls will be reviewed at the first Committee meeting after the AGM.

Further help

BCVS

We can help with tailoring your policy and setting up systems to control your financial activities. We can help with setting up a simple accounts system and how to report to your committee and setting out your annual accounts and report.

CASH

This has a wealth of information on the web with simple advice and model policies aimed at small and medium organisations. www.cash-online.org.uk

Charity Commission

The Commission has advice and information on financial practices and legal requirements for charities on financial management and reporting. In particular read: CC8 Internal Financial Controls for Charities and its very good checklist. Much of the guidance and good practice is applicable to non-charities as well. 0845 300 0218 www.charitycommission.gov.uk

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