



Charities: Are my financial procedures and systems robust?

It has been a tough few years for the Charity sector, with continued calls for more regulation and transparency. The Charity Commission has continued to conduct routine regulations with many of these investigations being triggered due to the indication of either a lack of or poor financial controls. In the same way as with any other type of business, it is a fundamental concept that charities are operating under the guidance of robust financial procedures and that there are systems in place to assist with the prevention and detection of instances of fraud. Effective financial systems also help to promote efficiencies throughout an organisation by encouraging consistent processes.

In order to assist our charity clients in checking and improving their systems, controls and procedures, we have compiled the following checklists. Ideally this should be completed by a senior member of staff at the charity, such as the Finance Officer.

These checklists are not exhaustive but will hopefully assist in identifying any weaknesses that exist within your current financial procedures and systems. Ironing out such issues will assist you in managing your finances and resources effectively, to enable the successful delivery of your charitable objectives.

Taxation	Control in place? (Yes/No/NA)	Details
Do any of the Charity's activities constitute a 'business' supply and should/could the charity be registered for VAT?		
Have contracts and/or service level agreements been reviewed in order to identify whether they constitute a 'business' supply?		
If the charity is VAT registered, are the VAT returns reconciled to the VAT control account?		
Are the appropriate returns being made in respect of all your potential tax liabilities, including PAYE, NIC, VAT and Income TAX /Corporation Tax?		
Have appropriate gift aid records been maintained and checked? <i>(Note: that where only verbal consent has been obtained from donors, the Charity must keep their own records to evidence this, including the address of each individual donor)</i>		

Related parties	Control in place? (Yes/No/NA)	Details
Are all the Trustees and members of the Finance team aware of what constitutes a related party?		
Is each member of the Trustee Board aware of all the potential related parties of the charity?		
Is each member of the finance team aware of all the potential related parties of the charity?		
Is there potential for the charity to enter into related party transactions, without prior approval being sought from the Trustees and/or the finance team?		
Could unapproved Trustees expenses be paid?		
Does each meeting of the Trustee Board include discussion and declaration of any conflicts of interest by the Board members?		

Fixed assets	Control in place? (Yes/No/NA)	Details
Does the charity maintain a detailed register of all the fixed assets that they hold? And is this checked and updated on a regular basis?		
Could any of the fixed assets be easily lost or stolen?		
When purchasing items that could potentially be deemed to be capital in nature, is consideration given to the charity's capitalisation policy, as to avoid fixed asset additions being allocated to purchases/repairs rather than fixed assets?		
Is there a process in place for the disposal and scrapping of fixed assets? Including obtaining approval from the relevant person(s) before proceeding with the disposal?		
Does the charity have adequate insurance to cover the value of its fixed assets?		
If the charity owns its own land and buildings, are these held in the name of the charity? If not, are the Trustees comfortable that they do have ownership of them?		
Do management routinely consider the appropriateness of their depreciation policies?		
Do the Trustees consider, on at very least an annual basis, whether the valuation of the charity's fixed assets (particularly for land and buildings) is accurate.		
Is there a policy in place stating how often a formal valuation of the charity's fixed assets is required (particularly for land and buildings)?		
Are there any formal procedures in respect of considering the need for assets to be subject to impairment.		

Investments	Control in place? (Yes/No/NA)	Details
Does the charity maintain a detailed register of all the investments that they hold? And is this checked and updated on a regular basis?		
Does the charity's governing document permit investing?		
Are reconciliations made to ensure that income is being received on all income-yielding investments?		
Do trustees regularly review their investment portfolio to ensure that each investment holding is beneficial to the charity?		
Where the management of the investment portfolio is outsourced to investment managers/advisers, do the Trustees receive regular reporting from them and retender as appropriate?		
Is the Board comfortable that they have recognised investments in the correct funds, whether this be restricted, unrestricted or endowments?		

Stock	Control in place? (Yes/No/NA)	Details
Does the charity maintain a listing of all the stock they hold? And is this checked and updated on a regular basis? have details of all stock held and are they up to date?		
Does stock include old, damaged, or obsolete items? If so is the charity making adequate provision for this?		
Could any of the stock be easily lost or stolen?		
Does the charity have adequate insurance in place to cover the value of its stock?		

Income and debtors	Control in place? (Yes/No/NA)	Details
Could income, received by way of either cash or cheque, be fraudulently diverted into non-charity bank accounts?		
Can the destination bank account, for the charity's Direct Debit or standing order receipts, be changed without prior approval?		
Is there potential for the creation of false invoices?		
Could intangible income (i.e. donated goods and/or services) go unrecognised, leading to an understatement of income?		
Is income recognised in the correct financial period? What procedures are in place to ensure that this happens?		
Is the board comfortable that they have recognised income in the correct funds, whether this be restricted unrestricted or endowments?		
Can customer receipts be allocated against the incorrect customers/invoices?		
Is there a risk of income being incorrectly categorised between the different income types in the financial statements?		
Is the sales ledger account regularly reviewed and reconciled to the aged debtors listing? This will also help to reduce the risk of debts going bad.		
Does the Charity have a policy in place in respect of providing for bad debts?		

Cash at bank and in hand	Control in place? (Yes/No/NA)	Details
Is there scope for a false bank account to be set up in the charity's name?		
Could unusual cash/or bank payments or receipts go without notice?		
Are banking arrangements reviewed (perhaps on a three to five-yearly basis) to ensure that bank charges and interest rate are competitive?		
Are all payments subject to approval by enough authorised signatories?		
Is the board of Trustees and finance team aware of who the authorised signatories are on each bank mandate?		
Are cheque books, bank cards and petty cash being kept in a secure location? Are the necessary controls in place to ensure that only authorised personnel can access these?		
Where the charity has a high level of petty cash, is this counted on a regular basis, by at least two people?		
Are there petty cash limits in place (either for the amount held at any one time, or the maximum payments allowed)? If so, does the Board routinely review these limits to ensure that they are still appropriate?		
Are regular (at least monthly) reconciliations performed to make sure that the bank and cash balances agree to the trial balance.		
Does the Charity have adequate insurance in place to cover the value of the cash held?		

Expenditure and creditors	Control in place? (Yes/No/NA)	Details
Could unauthorised expenditure be incurred?		
Is there potential for supplier details to be changed without prior approval? <i>(Particularly their bank accounts)</i>		
Is there potential for bogus suppliers to be set up on the purchase ledger?		
Could payments be made to fraudulent bank accounts?		
Is there potential for the creation of false invoices?		
Is expenditure being recognised in the correct financial period? What procedures are in place to ensure that this happens?		
Is the Board comfortable that they have recognised expenditure under the correct expense headings and in the correct funds, whether this be restricted, unrestricted or endowments?		
Can supplier payments be allocated against the incorrect supplier invoices?		
Is the purchase ledger account regularly reviewed and reconciled to be aged creditors listing?		
Can non-charitable expenditure be incurred on the Charity's credit cards?		
Does the Charity have set tendering procedures and are there controls in place in order to ensure they are being adhere to?		

Funds	Control in place? (Yes/No/NA)	Details
Do the Trustees and management understand the different fund types the Charity has?		
Do management maintain a record of all the fund balances and how these are comprised? Is this monitored and updated on a regular basis?		
Are any of the funds with balances carried forward no longer required? If so, has management considered whether they need to repay the excess funds, or considered obtaining approval, from the original donor/grantee, to use these funds for other purposes?		
Is there potential for restricted funds to be mis-managed and used for purposes other than that for which they were originally intended?		
Has the charity set up or considered setting up any designated funds?		
If the Charity holds endowment funds are the Trustees aware of the restrictions that may exist on these funds? (e.g. some may be expendable and other permanent)		
Is management producing budget forecasts, cashflow forecasts and management accounts and sharing these with the Board on a regular basis?		
How are the assumptions made in budget setting arrived at and are they recorded?		

<h1>Wages and salaries</h1>	Control in place? (Yes/No/NA)	Details
Could false/duplicate/dummy employees be created on the payroll system?		
Is there a risk that individuals who have ceased working for the Charity could still be paid after the cessation of this employment?		
Is there potential for employee details to be changed without prior approval? (Particularly their bank accounts)		
Can any adjustments to wages, such as paid overtime, be made without prior authorisation?		
Could salaries be paid at a rate different to the agreed contracted rates?		
Is payroll outsourced? If so, are checks performed to ensure that the payroll calculations are correct, before payment is made?		
Are 'right to work' checks performed in order to counter the risk of a new employee using a false identity?		
Is sub-contracted / manual labour being properly treated, in accordance with HMRC'S rules and regulations?		
Where applicable, does the charity maintain a register of each of their employee DBS certificate numbers?		
Are all the employees given the opportunity to join the Charity's pension scheme?		
Does the charity keep a copy of the signed employment contract for each existing staff member?		
Are PAYE, NI pension and other payroll control accounts being reconciled and agreed to the trail balance on a regular basis?		
Is the charity claiming the Government employer's national insurance allowance?		

Statutory records	Control in place? (Yes/No/NA)	Details
Are Charity Commission and where applicable the Companies House records kept up to date with all the Charity's details including trustee changes?		
Are Board meetings being properly convened, with minutes being made and kept?		
Are proper accounting records retained for at least six years?		

I.T. Controls	Control in place? (Yes/No/NA)	Details
Does the charity use a firewall to secure its internet connection?		
Are the security settings checked on before installing new software or introducing new devices to your systems?		
Are all devices password protected, including personal devices that have access to charity data?		
Does more sensitive data require two factor authentication?		
Are there different system permission levels based on individuals' roles and responsibilities?		
Is all software used by the charity from official sources?		
Are all devices and software kept up to date?		
Are back-ups of key data taken and stored in a secure location?		
Do all devices have the latest anti-virus software installed?		
Have staff undertaken cyber security training?		

Nominal ledger	Control in place? (Yes/No/NA)	Details
Can accounting journal entries be made without approval?		
Can accounting transactions be deleted or amended after initial recording?		

For more than accounting, business and wealth advice.

Call: +44 (0)330 124 1399

Email: enquiries@krestonreeves.com

Visit: www.krestonreeves.com

Kreston Reeves have made every effort to ensure accuracy at the time of publication (February 2023). Information may be subject to legislative changes. Recipients should note that information may not reflect individual circumstances and should, therefore, not act on any information without seeking professional advice. We cannot accept any liability for actions taken or not taken as a result of the information given in this factsheet. Kreston Reeves LLP (registered number OC328775) and Kreston Reeves Private Client LLP (registered number both operate under the Kreston Reeves brand and are together known as "Kreston Reeves". Any reference in this communication or its attachments to "Kreston Reeves" is to be construed as a reference to the Kreston Reeves entity from which the advice originates. Both entities are registered in England and Wales, and the registered office address is 37 St Margaret's Street, Canterbury CT1 2TU. Further details can be found on our website at www.krestonreeves.com