

# Finance Workshop – 1<sup>st</sup> March 2014

## Internal Financial Controls

Evangelist Jennifer Robinson

Minister Errol Vassell

Sister Geraldine Vassell



# Welcome

- \* Introductions
- \* Housekeeping
- \* Prayer



# STEWARDSHIP

**St Luke 16:1-13**



# Finance Workshop Objectives

- \* Provide support to AFB church finance reps
- \* Provide an update on legal requirements
- \* Provide a forum to share best practice



# Finance Workshop Topics

1. Internal Financial Controls
2. Book-Keeping
3. Loans Management



# Finance Workshop Topics

**4. Supporting Documentation**

**5. Quarterly Reports**

**6. Annual Returns**



# Charity Commission: *Running your charity*

---

## Procedures to handle money safely:

- **Setting a budget - and keeping track of it**
- **Written organisational policies to cover money coming in and money going out**
- **Day-by-day records of money in and out**
- **Secure banking/payment arrangements**
- **Use of CC8 checklist to make sure you have the right **controls over your church's money****

*Effective procedures for handling money can help you avoid bad decisions and accidental errors, as well as deliberate theft and fraud.*

# Charity Commission: *Running your charity*

---

You need a *budget* for your church, to plan out:

- how much money your church expects to get in next year from where (and when)
- how much to spend next year and on what
- how this year's spending compares with this year's budget and how much unspent money you now need to hold in reserve for next year
- what further action is needed to maintain the church's financial health for the future ...

## *Safeguarding charity assets:*

*Trustees have a legal duty to look after their charity's money and other assets (and to ensure their 'proper use' for public benefit)*

## Charity Commission: *Running your charity*

---

Your church may ***receive money*** from various sources: donations, legacies, fundraising. You need to make sure it is all:

- **secure** – e.g. putting unopened post in a locked drawer in case it contains donations
- **recorded** – for example, numbering collection boxes and recording when they are issued and returned
- **banked (intact) as soon as possible**

## Charity Commission: *Running your charity*

---

You must be able to account for all the **money you spend** as helping your church further its mission. This means you need to make sure that:

- anyone making payments or buying goods for your church is authorised to do so
- your church has budgeted for this expenditure or else specially authorised it as an extra
- you check the prices in invoices against the quotes in your original order to the supplier

***Petty cash: Cash transactions are much harder to keep track of, so it's best to pay cash for only very small amounts.***

## Charity Commission: *Running your charity*

---

Your church needs an ***expenses policy*** known to everyone making a claim or signing it off. The policy could also say that expenses claims must:

- be signed by the claimant as a true and accurate claim for expenses properly incurred on church business (and supporting vouchers attached)
- be authorised – not by the claimant, of course
- be settled by cheque or bank transfer – not cash
- for car mileage use no more than the HMRC rate

## Charity Commission: *Running your charity*

---

**The church's charity trustees have a legal duty to:**

- **prepare accounts for your church each year**
- **prepare a trustees' annual report each year**
- **retain 'proper accounting records' for at least six years (three years if your church is a limited company)**

**To which we must add, as more general duties:**

- **administer the charity only in its own best interests**
- **take 'reasonable care' of all charity assets, and**
- **ensure their proper application within the charity's constitutional purposes**

## Problem areas if you use the CC8 Checklist

---

### **B1 Financial controls throughout the charity**

**Is there segregation of duties to provide automatic 'double check'?**

**Do the trustees carry out an annual review of the internal financial controls?**

**We have too few competent people for us to segregate these duties “so that anyone entrusted with a task can look to colleagues for corroboration of their work in the event of something going wrong and can more easily satisfy any concerns then arising in the minds of others”?**

**How many other ways are there to check that all church assets are safe and fit for purpose, all income banked, all payments validated and all liabilities met?**

## Problem areas if you use the CC8 Checklist

---

### **C7/8 Banking/custody**

**Are incoming receipts banked promptly and intact (i.e. cash not used for expense-payments)?**

**What regular checks are made on income records against bank paying-in books and statements?**

**Is the church fully insured for cash on the premises and in transit?**

**How many ‘unrelated’ people in your church can and do help avoid banking ‘net’ of costs?**

**Why is this considered a vital aspect of internal controls?**

**Are there other ways to do it?**

**How does your church ensure what will satisfy an auditor on “completeness of income”?**

**What other protection is there for whoever does the banking of your church’s cash income?**

## Problem areas if you use the CC8 Checklist

---

### E4 Online bank accounts

Does payment setup and authorisation require two different persons to access?

Are PCs safeguarded with updated anti-virus, spyware and personal firewall?

Are PINs/passwords changed when personnel change?

Are online authorisations of payments printed out for an audit-trail of 'who did what'?

Have online authorisers been trained in the system's use?

**We don't use online banking and prefer using cheques only?**

**Our bank says they'd charge us extra and we can't afford that?**

**Our treasurer looks after all that using his own PC?**

**We've never had a change of financial admin people?**

**We rely on our bank for that sort of control-record?**

**It's just common sense, isn't it?**

## Problem areas if you use the CC8 Checklist

---

### D3 Payments

Must two trustees sign all bank payments above a set limit?

**Our treasurer always signs:  
who else do we need?**

Are any pre-signed blank cheques kept at the ready?

**We do that only to cover any  
emergency – is that OK?**

Are all payment records up to date for all the details needed?

**Yes, we do that for petty cash  
but how can we do the same  
for bank payments as well?**

Do all payments signatories see original invoices/claims?

**We leave all that detail to the  
treasurer?**

## Problem areas if you use the CC8 Checklist

---

### **D10 Expenditure records**

Are expenditure records checked by someone else against bank statements?

Are recorded payments checked against original invoices/expense-claims?

What other checks on the church's expenditure are made at Board level - and how is that done?

**We leave all that to the treasurer?**

**Our independent examiner does all that?**

**We scan and store on a PC or record all our financial income and expenditure in a book?**

**We use quarterly management accounts for that?**

**And we reconcile them with our statutory accounts?**

## Problem areas if you use the CC8 Checklist

---

### **B6/7 Financial crime/abuse**

**Is your church at risk from typical kinds of potentially fraudulent activities?**

**What ‘policies’ do you have against bribery (including ‘hospitality’), self-serving donations or conflicts of interests in your church?**

**Never had any such thing happen to us so far and don’t see why we should spend our time or money on such preventive measures?**

**Our church is only a small community in which we all know and trust each other well enough – so where’s the risk here?**

## Problem areas if you use the CC8 Checklist

---

**Do you also have policies and controls for accessing and for storing electronic information?**

**Are your data-records secure against hacking and/or loss/corruption?**

**Do you have any internal whistle-blowing procedure – what about the Charity Commission & the Police, as well?**

**We leave that to the treasurer?  
We don't use computers?**

**We make backup copies of all our data and store the backups elsewhere?**

**We've never needed formal procedures for any such rare eventualities and in any case we're too small a community?**

# Financial Controls – Stewardship's examples

---

## REAL LIFE EXAMPLE 1

We were asked to prepare accounts for a church with income of around £60,000 pa.

As we started this work, it became apparent that cash from the offerings was not being banked regularly. From time to time large amounts of cash were being banked but over a 2 year period there was a shortfall of around £6,000. It was not possible to say where this had gone except it was not in the church bank account. The church had offerings sheets but no procedure for making sure that the offerings were agreed to what was banked.

*Who looks after this internal control check in your church?*

## Financial Controls – Stewardship's examples

---

### REAL LIFE EXAMPLE 2

The church had made a £15,000 multi-year claim for Gift Aid but could not link it to amounts received as income, as they had no record of the tithes and offerings that agreed to what was being banked. HMRC refused to pay the claim until a proper link had been established.

In fact, the church had under-claimed as more was received than they had recorded and was able to claim more than they had originally. The lack of understanding of the background to Gift Aid had come close to losing the church more than £15,000 and delayed its payment for over a year.

*Is your church at risk in the event of a Gift Aid tax audit?*

## Financial Controls – Stewardship's examples

---

### REAL LIFE EXAMPLE 4

A church had been started by its founding pastor 12 years ago. He had slowly increased his hours working for the church and for the last 6 years had worked nearly full time for the church. He had been treated as 'self employed' by the church and had paid tax as a self-employed person.

HMRC took the view that he was an employee of the church because of the nature of the relationship the church had with him even though there was no contract of employment.

They assessed the church to over £40,000 of underpaid national insurance and tax.

*Could a similar issue ever arise for your church?*

## Financial Controls – Stewardship's examples

---

### REAL LIFE EXAMPLE 5

In December 2008 the Charity Commission reported on an investigation into a Christian charity providing support for children in Uganda. There were a number of issues that the Commission identified that were weak in the charity one of which was that there was a lack of accountability and financial control over what happened to the money it gave once it was received in Uganda. ... Whether a charity retains direct control over the use of its money overseas or else gives it to another overseas body which has control, the UK charity trustees need to know how the money has been spent and to have taken reasonable steps to see that it has been spent in ways that would be 'charitable expenditure' in the UK.

Otherwise not only can those trustees become personally liable for any resultant loss to the charity, but also HMRC can assess the charity to tax on the money it has spent overseas without 'proper control'.

*How does your church properly control any overseas use of its money?*

## Principle versus Practice: “Reasonable Care”?

---

- ▶ Who’s most at risk in our church, in the unlikely event of financial loss?
- ▶ What safeguards do we have in place to protect them from harm?
- ▶ Are we compliant with the basic ‘internal control’ principle?
  - Are we risk-aware - or complacent - in our handling of money:
    - in cash?
    - in and out of our bank accounts(s)?
    - over the internet and mobile communications systems?
  - And what about other assets readily convertible into money?
  - How do we control the incurring of liabilities on our behalf?
  - Are we tracking and controlling the proper use of restricted funds?
  - Are we financially aware in all aspects of our stewardship/mission?
- ▶ Do we have the right balance between trust and control?
- ▶ Are we open to new and better ways of doing things?

## ▶ Prayer & Close