

ASSEMBLIES OF THE FIRST BORN

Friday, 01 August 2014

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INTERNAL FINANCIAL CONTROLS & ACCOUNTING PRACTICES

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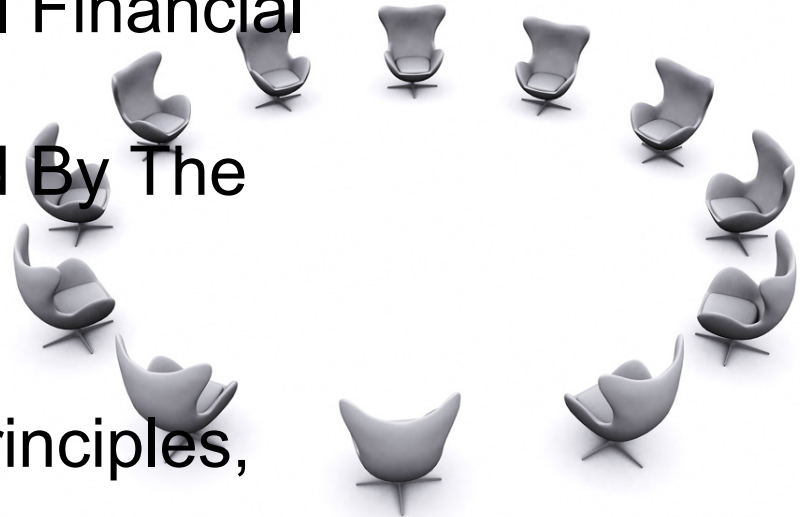
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What we'll be discussing today

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1. Introduction: Internal Financial Controls
2. Main Areas Covered By The Guidance Manual & IFC Checklist
3. Other Accounting Principles, Practices & Solutions
4. Conclusion
5. Questions & Answers



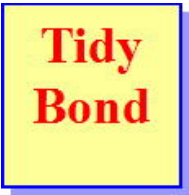
Abbreviations

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- AFB – Assemblies of the First Born Church of God
- IFC – Internal Financial Controls
- CC – Charity Commission
- CH – Companies House
- HMRC – HM Revenue & Customs
- TAR – Trustees Annual Report

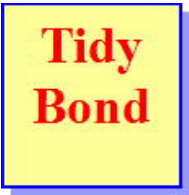
1. INTRODUCTION: INTERNAL FINANCIAL CONTROLS

Introduction: Internal Financial Controls



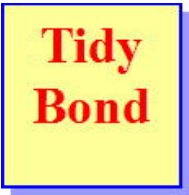
- Churches are different
 - A non-church charity has only one side to it
 - A Church has two sides:
 - Charity
 - The spiritual aspect
 - A Church is therefore a special charity
 - This difference is either not recognised or not fully understood by regulators, bankers, accountants, Ministers, Trustees & Church officials, etc

Introduction: Internal Financial Controls



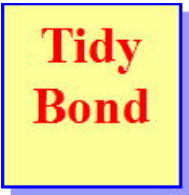
- Three regulators have an interest in charities:
 - Charity Commission: compliance with Charities Act 2011
 - Companies House: compliance with Companies Act 2006
 - HM Revenue & Customs: compliance with tax legislation
- Note:
 - All have an interest in IFC
 - Compliance expectation: Same for church charities and non-church charities

Introduction: Internal Financial Controls



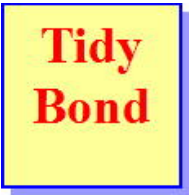
- Powers of regulators to enforce IFC
 - Extensive; and includes
 - Removal of Trustees
 - Transfer of assets from one charity to another
 - Etc

Introduction: Internal Financial Controls



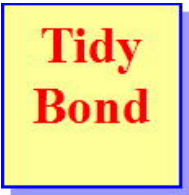
- Two fundamental principles of IFC:
 - Segregation of duties, whereby no one person runs a whole system from beginning to end
 - The ‘double check’, whereby what is done by one person is independently checked by another

Introduction: Internal Financial Controls



- Two relevant documents published by CC:
 1. Internal Financial Controls for Charities ('guidance manual')
 - Contains information on what IFC is all about and distinguishes between
 - Legal requirements; and
 - Good practice recommendations

Introduction: Internal Financial Controls



- Two relevant documents published by CC:
 2. Internal Financial Controls for Charities Checklist
 - This is useful for assessing the strength and depth of IFC in a charity
 - Contains list of questions based on the guidance manual
 - Answer 'Yes' or 'No' is required for each question
 - 'Yes' usually means good; 'No' usually means bad

2. MAIN AREAS COVERED BY THE GUIDANCE MANUAL & IFC CHECKLIST

Main Areas Covered By The Guidance Manual & IFC Checklist

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– Budget

- It is a tool for financial planning and control
- Particularly useful for recognising branch autonomy whilst still leaving overall control in the hands of the Trustees – as required by charity law

Main Areas Covered By The Guidance Manual & IFC Checklist

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- Budget (cont)
 - Nurtures and continually reemphasises financial discipline and accountability
 - Very effective for bringing head office and branches together as a an effective team, working together successfully, whilst recognising one church, one charity

Main Areas Covered By The Guidance Manual & IFC Checklist

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- Internal audit/Audit committee:
 - The knowledge that what is being done today by anyone could be the subject of scrutiny by the Internal Auditor tomorrow puts everyone on their toes
 - Branches should be visited by the Internal Auditor from time to time – and at short notice

Main Areas Covered By The Guidance Manual & IFC Checklist

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- Regular information for Trustees
 - It is an entitlement, not a privilege
 - Trustees are accountable to the law for the running of the charity
- Accounting records
 - Principle: Every financial transaction must be evidenced in writing
 - Bookkeeping
 - Standard chart of accounts, especially where there are branches

Main Areas Covered By The Guidance Manual & IFC Checklist

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- Reserves policy
 - Purpose is financial prudence, providing against a rainy day
 - AFB requires this policy to be stated in the financial statements
- Accounts compliant with legal requirements?
 - Professional support is required from accountants and auditors specialised in charity matters
- Approval of accounts – by Trustees

Main Areas Covered By The Guidance Manual & IFC Checklist

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- Timely filing of accounts & returns
 - Charity's filing track record is available to the public
 - A good filing track record speaks well of the charity e.g. with funders/financiers
- Late submission should be avoided
 - Timely and regular returns from the branches would help
- Managing risks of financial crime & abuse e.g. external interference with charity's data and systems

Main Areas Covered By The Guidance Manual & IFC Checklist

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- Income controls e.g. ‘double check’ on records of tithes and offerings received after a service
- Gift Aid
 - Claims maximised?
 - Adequate records kept?
- Trading income
 - Treated in a different way from donations e.g. could attract tax
 - Area of high potential growth in the UK
 - Path to diversification of Church income base

Main Areas Covered By The Guidance Manual & IFC Checklist

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- Banking & custody procedures
 - Incoming receipts banked promptly?
 - Safe custody
 - Insurance

- Bank reconciliations: Overall checks

- Authorisation of expenditure: A primary means of controlling costs

Main Areas Covered By The Guidance Manual & IFC Checklist

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- Payments by cheques, cards, direct debits, standing orders, bacs: Lots to consider

- Payment by Cash/Petty cash
 - Problematic area across the Church sector
 - Approvals
 - Records
 - Imprest system

Main Areas Covered By The Guidance Manual & IFC Checklist

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- Wages & Salaries
 - PAYE registration
 - New RTI system
 - Pension arrangements
 - Employment contracts
- Payment of expenses & reimbursements
 - P11D: End Of Year Expenses & Benefits Form
 - HMRC's current upgrade in regulation & interest in churches!

Main Areas Covered By The Guidance Manual & IFC Checklist

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- Control over fixed assets
 - Fixed assets register
 - Insurance

- Electronic banking: Critically important to retain checks and balances

Main Areas Covered By The Guidance Manual & IFC Checklist

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- Investments
 - Professional advice
 - Funds management
 - Optimal returns
 - Pooling of funds v Branch autonomy
 - Central management of funds essential to maximise benefits
 - Policies required

Main Areas Covered By The Guidance Manual & IFC Checklist

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Restricted & Endowment funds

- Problematic area across the Church sector
- Fundamental requirement of charity fund accounting: Objective is to recognise and respect the wish of a donor in making a donation

Main Areas Covered By The Guidance Manual & IFC Checklist

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Restricted & Endowment funds (cont)

- Three possibilities are recognised:
 - Unrestricted Fund: Donor gives Trustees total discretion in application of the donation
 - Restricted Fund: Use of donation tied to a specific purpose
 - Endowment Fund: Donation must be invested and only interest earned on the donation could be spent by the charity

Main Areas Covered By The Guidance Manual & IFC Checklist

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Restricted & Endowment funds (cont)

- Restricted Funds
 - AFB's accounting policies accommodate these; but none has been reported
 - Are there likely to be one or two e.g. building fund?

Main Areas Covered By The Guidance Manual & IFC Checklist

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Who is responsible for IFC?

- Trustees!!
- Need to cover Trustees' exposure to risk:
 - Upgrade to charitable company or charitable incorporated organisation (CIO) – in progress for AFB!
 - Insurance – limited effectiveness

3. OTHER ACCOUNTING PRINCIPLES, PRACTICES & SOLUTIONS

Other Accounting Principles, Practices & Solutions

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- Branches: Need to standardise and harmonise
- Quarterly management accounts
 - Would help Trustees & Management to see problems quicker; and
 - Finalise accounts quicker at the year end, facilitating meeting filing date deadlines
 - Often required by funders/financiers

Main Areas Covered By The Guidance Manual & IFC Checklist

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- Online accounting solution, benefits include
 - Quicker retrieval
 - Accessibility from 'anywhere'
 - Economy of storage space
 - Paperless office
 - Etc

Main Areas Covered By The Guidance Manual & IFC Checklist

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- **Communication:** The following tools would help
 - Organisation chart
 - Effective and regular reports prepared and circulated
 - Regular meetings with minutes circulated
 - Internal newsletter

Main Areas Covered By The Guidance Manual & IFC Checklist

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Additional Suggestions Concerning AFB's Financial Statements:

- Foreign branches not mentioned: AFB is global!!
 - Presumably, their results are incorporated into the UK accounts
 - A policy on foreign exchange should be agreed and stated in the financial statements

Main Areas Covered By The Guidance Manual & IFC Checklist

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Additional Suggestions Concerning AFB's Financial Statements:

- Trustees Annual Report (TAR)
 - Rather brief and does not contain even minimum sections like:
 - Objectives & Activities
 - Achievements & Performance
 - Financial Review
 - Plans For Future Periods

Main Areas Covered By The Guidance Manual & IFC Checklist

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Additional Suggestions Concerning AFB's Financial Statements:

- Trustees Annual Report (TAR) – cont
 - It is AFB's selling document: TAR should be used to communicate effectively with AFB's stakeholders: Members, Financiers/Funders, Government, etc, showing AFB's contributions to the world
 - TAR could include photos, graphics/graphs, charts, testimonials, etc.

Main Areas Covered By The Guidance Manual & IFC Checklist

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- Operating/Financial Control Manual: A good number of the matters mentioned above would be spelt out in detail in this document
- BoardView: Invite independent charity specialists to attend Trustees meetings from time to time, purely in an advisory capacity
- Training: Essential for Ministers, Trustees & Officers

4. CONCLUSION



CONCLUSION

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- Advantages of IFC
 - The most successful businesses are the best managed organisations
 - Similarly, the most financially buoyant churches are the best managed ones
 - Therefore: Church + IFC = Improved Finances

5. Qs & As

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Thank you!

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