

**Internal Financial Control**  
**North England Conference of Seventh-day Adventists**  
October 2010

---

## CONTENTS

	Page
<i>Setting the Scene</i>	
Introduction	3
<i>Principles</i>	
Control and Governance	4
Control and Procedure	5
Control and Assessment	6
<i>Procedures</i>	
Delegation	6
Segregation of Duties	7
Receipt of Incoming Resources	8
Custody and Banking	9
Retention of Funds	10
Payments	11
Financial Reporting	13
Internal Audit	14
External Audit	15
<i>Appendices</i>	
Internal Financial Control for Charities . Self Check List (Charity Commission Leaflet CC8)	I
Organizational Structure and Financial Control Flow-chart	II
Incoming Resources Flow-chart	III
Funds Flow-chart	IV

## INTRODUCTION

The North England Conference of Seventh-day Adventists (the NEC+) being a registered charity, its trustees are required in their *Annual Report* to make a statement confirming that the major risks to which the charity is exposed, as identified by the trustees, have been reviewed and systems have been established to mitigate those risks.<sup>1</sup>

The last review was completed in October 2010. This present document is an outline of the principles and systems adopted to help reduce risk therein identified, particularly that of embezzlement. Additionally, it seeks to generally reduce the charity's exposure to financial loss by means of effective and achievable financial control.

In so doing, this document recognizes the guidelines on the subject contained in the Charity Commission booklet, CC8 - *Internal Financial Control for Charities* <sup>2</sup> which highlights a number of requirements and recommendations (some inferred) including:

### ☞ Requirements:

- \* Policy and Practice Covering Banking and Custody Procedures.
- \* Policy and Practice Covering Payment Procedures.
- \* Policy on Delegation.
- \* Investment Policy.
- \* Annual Budget.

### ☞ Recommendations:

- \* Policy on Segregation of Duties.
- \* Policy on Financial Reporting.
- \* Policy on Internal Audit.
- \* Plan of the Charity's Organizational Structure.

In this context, financial control will be outlined under the following headings:

1. Governance
2. Procedure
3. Assessment

---

<sup>1</sup> Accounting and Reporting by Charities 6 Statement of Recommended Practice, section 31(g), (Charity Commission, Oct. 2000)

The term ~~governance~~ is restricted here to the issue of financial control as it relates to those who are responsible for controlling the management and administration of the charity (the *Trustees*), and those to whom is delegated the day-to-day running of the charity (its managers, support staff). At a later date it will be expanded to include ~~the~~ solicitation of funds, and ~~the~~ handling of funds by volunteers, etcetera, before they reach the offices of the charity itself.

Internal financial control will need to recognize the sources and parameters of the authority and norms from which derive the existence and operation of the charity. For this purpose, three such sources are identified. These are:

1. The Constitution.
2. The Trustees.
3. Statute and Sector Standards.

### The Constitution

The NEC's constitution is its governing instrument. It defines the purpose of the charity, and the powers the charity has in its furtherance. It also helps define the manner in which the charity is administered.

### The Trustees

~~The~~ charity trustees are the people responsible under the charity's governing document for controlling the management and administration of the charity.<sup>3</sup> Within their constitutional remit, and acting in consort as an executive committee, the NEC's trustees may be identified as being the body that has ~~the~~ general control and management of the administration of the charity.<sup>4</sup>

Particularly pertinent to internal financial control will be the work of the trustees in adopting Working Policy and in setting the Annual Budget.

Where the size of the charity makes it impractical for the trustees to undertake personally certain duties, or to carry out certain checks and controls, these functions (but *not* the responsibility) may be delegated to certain key employees, to staff in general, or to agents, as appropriate.<sup>5</sup>

---

<sup>2</sup> Internal Financial Control for Charities. (Charity Commission, May 2001)

<sup>3</sup> Charities Act 1993, section S.97(1)

<sup>4</sup> *ibid.*, section 97

<sup>5</sup> Internal Financial Control for Charities, sections 10, 15, 16 (Charity Commission, May 2001)

## ☞ Statute and Sector Standards

The primal importance of compliance with relevant statute and charity sector standards is taken as read. These include, but are not limited to:

- \* Charities Acts.
- \* Statements of Standard Accounting Practice (SSAPs).
- \* Financial Reporting Standards (FSRs).
- \* Generally Accepted Accounting Principles (GAAP).
- \* Accounting and Reporting by Charities . Statement of Recommended Practice (SORP).

## CONTROL and PROCEDURE

Procedure covers the handling of, and accounting for, financial resources. It does so with particular regard to the need for a built-in system of checks and balances designed to help ensure financial control is present, implemented, and effective.

Basic guidance derives from the principles contained in the Charity Commission booklet, *Internal Financial Control for Charities*, mentioned earlier. The NEC's own, more prescriptive, procedures are summarised below as they relate to the following three major spheres of financial activity:

1. Receipt of funds.
2. Retention of funds.
3. Application of funds.

## ☞ Receipt of Funds

This section covers the physical receipt and custody of incoming resources, and their recording in the accounts. The specific statements in this regards are:

- \* *Policy on Delegation.* (page 6)
- \* *Policy on Segregation of Duties.* (page 7)
- \* *Policy and Practice Covering Receipt of Incoming Resources.* (page 8)
- \* *Policy and Practice Covering Custody and Banking Procedures.* (page 9)

## ☞ Retention of Funds

This section covers the retention by the charity of incoming resources, retention here referring to the holding back of funds for future use, as opposed to spending them within a reasonable time of receipt. The specific statement in this regard is:

- \* *Statement on the Retention of Funds.* (page 10)

## ☞ Application of Funds

This section covers the application of incoming resources in furtherance of the charity's purpose. The specific statement in this regard is:

- \* *Policy and Practice Covering Payment Procedure.* (page 11)

# CONTROL and ASSESSMENT

The trustees need to both ensure that proper financial controls are in place, and satisfy themselves that they are being implemented and that they are effective. This responsibility may be discharged more readily where formal reporting and assessment is undertaken.

The specific statements in this regard are:

- \* *Policy on Financial Reporting.* (page 13)
- \* *Policy and Practice Covering Internal Audit.* (page 14)
- \* *Statement on External Audit and Internal Control.* (page 15)
- \* *Organisational Structure and Control Flow-chart.* (Appendix II)

## ***Policy on Delegation***

Delegation of responsibility for financial functions is primarily informed by the NEC Constitution.

## ☞ Article 11(d)

This provides for the treasurer, working in consultation with the President and Executive Secretary, to % receive all monies pertaining to the conference

and disburse them as the Executive Committee shall direct and perform such other duties as usually pertain to this office.+

☞ Article 16 (Sources of Funds)

This defines what is comprised in the term monies pertaining to the conference+

☞ Article 17 (Application of Funds)

This describes how such funds shall be disbursed by the treasurer, working under the direction of the Executive Committee.

Beyond this, sub-delegation of the treasurer's duties may be approved by the Executive Committee in their employment of ancillary treasury staff. These will work under the supervision of the treasurer, having first had their terms of reference determined by the Executive Committee.

### ***Policy on Segregation of Duties***

The underlying principle of internal financial control is that there should be a well-defined division of responsibilities such that no one individual should be in a position to handle a transaction from its inception to conclusion.+<sup>6</sup>

The objects of such a division of duties are first to detect innocent error and secondly to ensure that no one person is in a position to both misappropriate an asset and to conceal his action by falsification of the records.+<sup>7</sup>

Practical application of this principle will involve, as far as is reasonably possible, separate persons being assigned the responsibility in any given transaction for:

- \* **authorising** or initiating the transaction.
- \* the physical **custody** and control of assets related to the transaction.
- \* **recording** the transaction in the accounting records.
- \* periodic **reconciliation** of the asset with the accounting records.<sup>8</sup>

<sup>6</sup> International Accounting Manual, section 304.01 (General Conference SDA 1988)

<sup>7</sup> Student's Auditing Manual 3<sup>rd</sup> edition, section 4.14 (Coopers & Lybrand, 1989)

<sup>8</sup> Selected - International Accounting Manual, section 304.01, and Student's Auditing Manual, section 4.15 (both as above)

## ***Policy and Practice Covering Receipt of Incoming Resources***

This policy covers the treatment of incoming resources received in the form of cash (including cheques), direct bank credits, or credit memos from associated organisations. It requires that, as far as is practically possible, the following procedures be in place:

### Incoming Mail

Incoming treasury department mail, including hand deliveries, should be opened by the cashier in the presence of one other treasury staff member. Mail containing cash should be recorded in a *Post Book* by the cashier, the details comprising:

- Date
- Name of remitter
- Amount
- Purpose of payment
- Initials of openers
- NEC receipt number

*(Departments should follow a similar procedure)*

### Receipting

Receipt books should be in duplicate and printed with sequential numbering. They should show the Charity's name, the fact that it is a registered charity, and contain provision for the recording of all other details necessary to the proper processing and auditing of the income in question.

Individual receipts should be issued in numerical order by the cashier, the original receipt being given to the remitter, with the duplicate acting as the book-keeping voucher and the filing record. (A triplicate copy may serve as a more readily accessible filing record).

### Custody and Banking

Cash income should be banked gross, and in harmony with procedures outlined in the *Policy and Practice Covering Custody and Banking Procedures*. (page 9)

### Accounting

The cycle is completed by the subsequent and timely recording in the accounts , and orderly filing, of the receipts.



## ☞ Direct Bank Credits and Inter-company Credit Memos

Direct bank credits should be recorded in the accounts via a *Bank Voucher*, and then systematically filed in a timely manner. Credit Memos from associated organisations are similarly processed, but via a *Journal Voucher*.

See the *Incoming Resources Flow-chart* (Appendix III)

### ***Policy and Practice Covering Custody and Banking Procedures***

This policy covers the holding and subsequent banking of cash income.

#### ☞ Custody

Secure custody of incoming cash is entrusted to the cashier.

Incoming cash is held in a dedicated *Cash Receipts Box*, along with the duplicate copies of the corresponding receipts. At any given time, the amount of cash in the Cash Receipts Box should equal the monetary total of the receipts issued since the last deposit of cash at the bank.

Under no circumstances should incoming cash be used to make petty cash or any other payments.

Appropriate insurance should be taken out to cover cash on premises and in transit.

#### ☞ Banking

Incoming cash should be banked, gross, by the cashier at as early a date as is consistent with practicality, security, and insurance policy requirements.

Bank deposits should be for the exact amount of the receipts issued since the last such banking.

The deposit should be recorded on, and processed via, a *Bank Voucher*, showing all the pertinent details for accounting and audit purposes. These should be entered into the ledger at an early date and then filed for subsequent reference and audit.

## ***Statement on the Retention of Funds***

This statement covers the circumstances under which income may be retained beyond a reasonable time of its receipt.

### General Duties and Powers

The Trustees are under a general legal duty to apply charity funds within a reasonable time of receiving them. However, they may rely upon an implied power in trust law to hold reserves if in their considered view it is necessary in the charity's best interests to do so. They need to justify such retention by demonstrating ~~by~~ reference to (the) charity's current position and future prospects, why holding a particular level of reserves is right for the charity at that time.<sup>9</sup>

The retention of funds should be justified by the trustees in their *Reserves Policy*, and explained in their *Trustees' Annual Report and Accounts*.

### Investment

Where funds are retained for future use they may be invested by the trustees, within their specific constitutional powers and general legal powers.

The extent to which funds are invested, and the manner of any such investment, should be justified and explained by the trustees in their *Investment Policy*. Further, This policy should be described in the *Trustees' Annual Report*, along with the performance of any investments over the financial year.<sup>10</sup>

### Types of Funds and Their Retention

#### a) Unrestricted Funds

These are funds ~~which~~ are expendable at the discretion of the trustees in furtherance of the objects of the charity. If part of an unrestricted fund is earmarked for a particular project it may be designated as a separate fund.<sup>11</sup> Designated funds may be undesignated or re-designated at a future date as the trustees see fit.

#### b) Restricted Funds

These are funds subject to a specific usage as placed upon them by the donor, or by virtue of being donated in response to a specific-usage appeal.

Their use and, sometimes, even the timing of their use is determined by the restrictions settled upon them at the time given. They are subject to the same

---

<sup>9</sup> Charities' Reserves, sections 3, 29-35 (Charity Commission, April 2002)

<sup>10</sup> Investment of Charitable Funds, sections 186, 187 (Charity Commission, April 2003)

<sup>11</sup> Statement of Recommended Practice, Appendix 3.1 (Charity Commission, 1995)

principles governing retention of unrestricted funds, with justification and explanation of such retention being made in the *Trustees' Annual Report and Accounts*.

#### ☞ Fixed Assets

Fixed Assets may be deemed to be funds retained in non-cash form. They represent property and equipment held for the necessary day-to-day operation of the charity, or held by it as a form of investment. Fixed Assets may be restricted or unrestricted depending upon the circumstances of their acquisition.

See the *Funds Flow-chart* (Appendix IV)

### ***Policy and Practice Covering Payment Procedure***

#### ☞ Authorisation

Within the parameters described on *Control and Governance* (page 3) and the *Policy on Delegation* (page 6), the treasurer exercises delegated authority in the receipt and application of charity funds on a day-to-day basis.

In general, disbursements will be authorised by reference to:

- \* The Annual Budget
- \* Working Policy
- \* Additional executive committee action

#### ☞ Incurring Liability

The general rule is for the supply of goods and services to be subject to an official *Purchase Order*, duly signed by the treasurer or associate treasurer.

In circumstances where following such a procedure is patently inappropriate (e.g. reimbursement of authorised travel, petty cash expenses, etc.), the treasurer or associate treasurer may authorise and effect expenditure without recourse to the use of a purchase order.

#### ☞ Disbursements

##### a) Cash

Cash disbursements should be made using the Imprest Petty Cash system:

\* A petty cash float is established of an amount large enough to provision normal cash needs over a reasonable period of time, but without being so large as to represent a security risk. The float is held in the sole custody of the cashier. The amount of the float should be agreed by the charity's officers, and reviewed regularly . at least annually.

\* The float should be kept in a dedicated *Cash Payments Box*. When cash payments are made they are recorded on a *Cash Voucher* and signed by the recipient and/or to which proof of expenditure is attached. The cash voucher is placed in the Cash Payments Box to replace the cash paid out. Thus, at any given time, the value of cash or cash/cash vouchers in the Box will always equal the amount of the cash float.

\* When the float becomes depleted it is replenished by withdrawing cash from the bank in the exact amount of the cash vouchers in the Box. The withdrawn cash is placed in the Box and the cash vouchers in question removed, thereby restoring the float to its full amount in cash.

\* The cash vouchers are sequentially numbered and recorded in the ledger, then filed, as soon as reasonably possible. Likewise for the bank voucher for the withdrawn cash which, additionally, should quote the reference numbers of the cash vouchers the withdrawal has covered.

#### b) Bank

Disbursements of larger sums are usually paid by cheque or BACS transfer. Such payments should be made on the basis of invoices or expense claims, authorised for payment by the treasurer or associate treasurer. Payments over a set limit, determined from time to time by the trustees, require two authorised signatories.

Bank payments, including those made direct from the bank account via direct debit etc., should be recorded on a *Bank Voucher*, to which is attached all supporting documentation, and on which pertinent audit-trail details are recorded. These should be recorded in the ledger, then filed, as soon as reasonably possible.

#### c) Debit Memos

Liability toward associated organisations, accepted via their debit memo (or the charity's credit memo), should be authorised by the treasurer or associate treasurer and processed on sequentially-numbered *Journal Vouchers*. These should be entered in the ledger, then filed, as soon as reasonably possible.

### ***Policy on Financial Reporting***

This Charity shall produce and present to the executive committee a financial statement and budget control statement for each quarter, within one month of the close of the quarter.

If the said committee is not expected to meet within the prescribed period, these statements, plus management notes, shall be posted to each trustee within this same time frame.<sup>12</sup>

The production of the final year-end financial statement is dependant upon the date of audit. In the absence of audited accounts, pre-audit statements, clearly marked as such, may be presented to the executive committee.

As a minimum, the interim quarterly statements should comprise of the following:

☞ Financial Statement

- \* Statement of Financial Activities
- \* Balance Sheet

☞ Budget Control Statement

- showing by individual income and expense account
- \* Budget for the year
- \* Budget for the year to date
- \* Actual income / expenditure for the year to date
- \* Deviance from the budget for the year to date
- showing by total
- \* Gross income and gross expenditure for the year to date
- \* Net surplus / deficit for the year to date

☞ Management Notes

- \* analysis of financial performance for the year / year to date
- \* analysis of financial position as at the statement date
- \* assessment of the charity's financial prognosis as at the statement date

---

<sup>12</sup> British Union Conference, Administration Policies, section F.3 (2002)

## ***Policy and Practice Covering Internal Audit***

### Preamble

There are inherent limitations on the effectiveness of any system of internal control. No system of internal control, however elaborate, can by itself guarantee efficient administration and the completeness and accuracy of the records; nor can it be proof against fraudulent collusion, especially on the part of those holding positions of authority or trust.<sup>13</sup>

This notwithstanding, internal control does tend toward a diminution of such failings, as well as the incidence and the speed of their discovery where they do occur. The implementation and effectiveness of such control is further enhanced when it is itself monitored through the process of formal internal audit.

Internal audit may be regarded as carrying out a special control function (it acts as a separate, higher level of internal control to determine whether the underlying accounting system and the internal accounting controls therein are functioning properly).<sup>14</sup>

For this charity, the internal audit will comprise:

#### Ledger Review

A formal quarterly review of the ledger undertaken by the treasurer with the purpose of helping ensure that:

- the accounts are clear / cleared of error of omission and/or commission.
- anticipated income and expenditure for the period to date has been

processed.

- reconciliation statements are present, current, and outstanding items dealt with.

- transactions on balance sheet accounts are complete and current.

#### Self Checklist

An annual inspection of the accounting function (say, mid-year) in harmony with the

Charity Commission *Internal Financial Controls Self Checklist for Charities* (Appendix I)

<sup>13</sup> Students' Manual of Accounting 3<sup>rd</sup> edition, section 4.7 (Coopers & Lybrand, 1989)

<sup>14</sup> ibid. section 5.48

The inspections to be carried out by an *Internal Audit Team* comprising:

- the NEC Executive Secretary
- the NEC Associate Treasurer
- two (non SDA-employed) trustees, chosen from time to time by the executive committee

Team observations, along with a copy of their mutually-agreed checklist, should be

presented to trustees at the next executive committee meeting following inspection.

### ***Statement on External Audit and Internal Control***

The trustees should expect that, as an integral part of its work, the external audit should perform tests of control to obtain audit evidence about the effective operation of the accounting and internal control systems . that is, that properly designed controls ... exist in fact and have operated effectively throughout the relevant period.<sup>15</sup>

## **APPENDIX I**

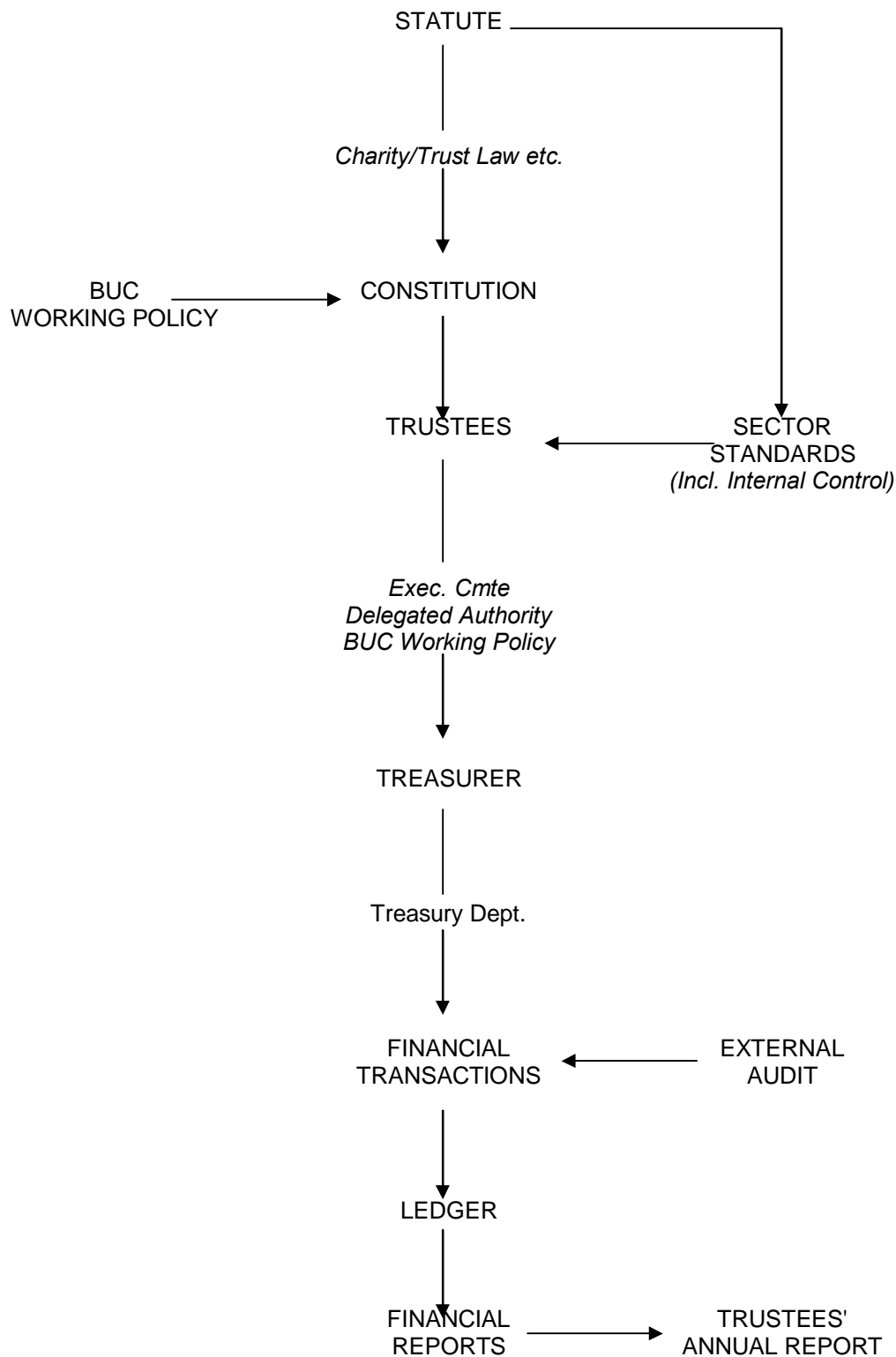
[Charity Commission Publication CC8, available at  
<http://www.charity-commission.gov.uk/publications/pdfs/cc8text.pdf>]

---

<sup>15</sup> Statement of Auditing Standards 300, quoted in Auditing & Reporting 2002/2003, page 165 (Croner.CCH Group Ltd. 2002)



**APPENDIX II**  
**Organisational Structure & Control Flow Chart**

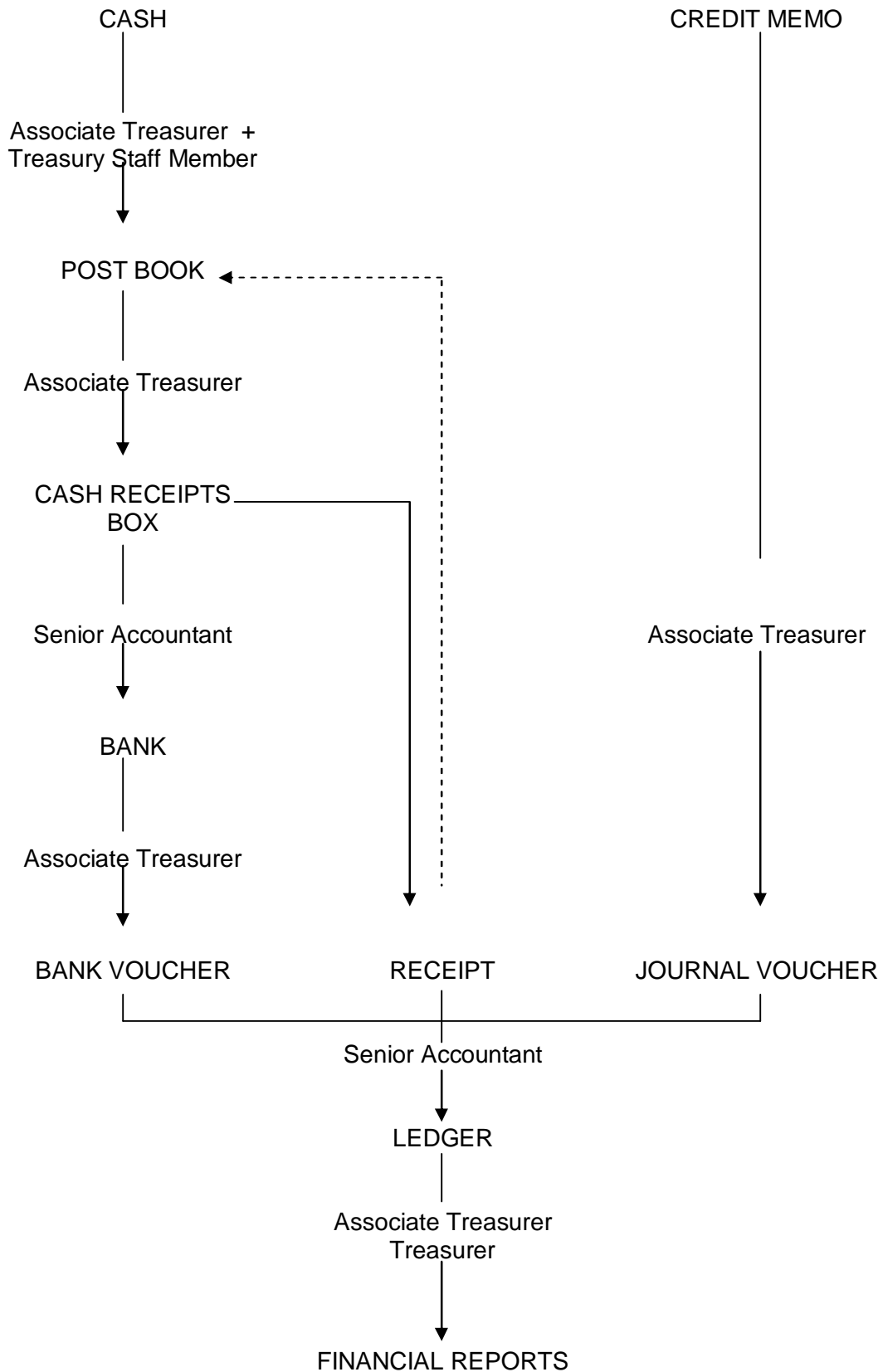


*To be read and understood in the light of the preceding text of this Statement on Internal Financial Control.*



APPENDIX III

**Incoming Resources Flow Chart**



APPENDIX IV

Funds Flow Chart

