Setting up financial controls

Financial controls are a set of rules that create clear processes and procedures to manage the organisation's finances, covering how money comes in and goes out of the organisation. Organisations will all work in different ways, but it is important that you create a set of financial controls that address the key financial risks e.g., fraud, committing to spending outside the budget etc.

The controls you have in place should be appropriate and proportionate to the risk that you are trying to deal with, and everyone must follow them when they are dealing with the organisation's money.

You should also review your controls regularly to check that they are working.

Segregation of duties

A key principle to apply when creating financial controls is that no one person should be responsible for a financial process from start to finish – this idea is called segregation of duties. By creating financial controls that require the involvement of more than one person you can reduce the risk of mistakes and omissions, inappropriate expenditure or loss and fraud. Examples of this would include two people authorising orders, approving payments and handling and recording cash payments.

Small organisations often think it's difficult to segregate duties but it is very important to have at least two people involved in a process, thereby preventing any one individual to act alone. This principle protects the organisation but also the people involved, so that no one person has to take on the responsibility alone.

Levels of authority

It is important that you are clear about who has authority to spend the organisation's money, and the level (how much) they are able to commit to. When delegating responsibility to a staff member or a volunteer they need to be given clear guidance on what they are allowed to do. You also need to be clear on the level of responsibility that is with the Treasurer and their role in keeping the rest of the Board informed about the finances of the organisation.

When giving people authority to commit the organisation to spending money you should remember the principle of segregation of duties and create a process which involves more than one person.

What to include in your financial controls?

Here are some examples of the things that your financial controls should cover:

- How you will deal with petty cash and the amount of the float
- The maximum amount which can be paid out in cash
- Whether there are certain small items which committee members may buy without going to a meeting for approval, and if so, the maximum amount of money that can be spent in this way
- The financial year (for example, if your accounts will run from 1st April to 31st March, from 1st January to 31st December, or on a different cycle)
- The bank accounts that the organisation will maintain
- Procedures for banking cash receipts
- The process for authorising that an invoice can be paid
- Rules around the use of online banking facilities

Where possible your financial rules should reduce the amount of physical cash that you are dealing with, as cash handling is a major source of risk.

Advice about financial controls is available to voluntary organisations through the network of local voluntary councils (CVCs).

Other sources of information

The Charity Commission has guidance on internal financial controls. While this is written for charities it has useful content for all types of voluntary organisations and is written in a question and answer format.