Financial controls: managing operational risk

Financial Resilience training delivered on behalf of DeVA (Devon Voluntary Action)
NDVS commissioning the work on behalf of DeVA

Rachel Cooper| 3 November 2022

Embrace Finance
Building confident charities

We work with small and medium organisations with big ambitions

How to stop worrying and learn to love finance

Embrace Finance is a non-profit organisation working with charities and social enterprises to build financial sustainability by building financial confidence

Want to stay in touch?

Getting on top of the numbers and staying on top of the numbers is the only way we can build our financial sustainability.

Join us today to take your next step:

- Subscribe to our newsletter to get free insights on building financial sustainability
- Join us at our free monthly friendly finance circles, bring your pain points and leave with new friends
- Take a deeper dive and build your financial confidence with a 121 professional mentoring session
- Get rid of your unknown unknowns and book onto one of our workshops
- Not sure what you need? Contact us to arrange a discovery chat

We look forward to working with you!

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Liz Pepler MIAB FRSA

Founding Director

The voluntary, community and social enterprise sector has been my professional home for the whole of my working life. Over the past 20 odd years, I have had the privilege of working in a range of senior leadership roles in several national and local organisations.

Whilst I recognise it is not perfect and there is much work to be done I am deeply fond of the many rich and fertile coral reefs of social action that shape our sector.

Combining a professional background in enterprise, resilience, finance and sustainability with senior leadership, change management and partnership building skills, I support social organisations through growth, change and difficulty.

Contact me for:

01 | Financial Sustainability Planning
02 | Organisational Resilience Building
03 | Financial Governance Reviews
04 | External Finance Director work
05 | Systems Design and Implementation
06 | Learning and Innovation Partnering

I specialise in working with small and medium organisations with big ambitions.

Founder | Embrace Finance
Co Founder | Small Charity Friendly Collective
Co Founder | School of Small Charity Finance

#FinanceForSocialChange
#SmallIsBeautiful

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Rachel Cooper ACA FHEA
Associate

"The value of small" report from Lloyds Bank Foundation in 2018 evidenced and clarified what many people instinctively knew – that small and local charities play a vital and distinctive role in addressing complex issues. I feel so fortunate, after a career that has covered a range of roles in the social and public sectors to be specialising on working alongside these dynamic organisations, building financial confidence.

I believe that if you can manage your project or organisation, you can manage the finances for it. I am here to take the fear out of finance so that you can have more independence, more security, and more control over the future of your organisation.

I work in association with Embrace Finance, as well as in my own practice.

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DeVA Financial Resilience Support Autumn 22

How to budget in uncertain times	04-Oct	10-11.30
Costing 101; from unit cost to full cost recovery	11-Oct	1-2.30
Gift aid; how to claim and what to claim	13-Oct	2-3.30
Bookkeeping; Keeping on top of the numbers	18-Oct	2-3.30
Financial controls; managing operational financial risk	03-Nov	10-11.30
Management accounting; Finding the stories behind the numbers	08-Nov	10-11.30
Annual Accounts and Independent Examinations	15-Nov	10-11.30
Cashflow forecasting; Keeping the lights on	17-Nov	2-3.30
Reserves and resilience; managing strategic financial risk	23-Nov	9.30-11
Charity Finance for Trustees; An overview	29-Nov	10-11.30

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Today

- What goes wrong?
- Why does that happen?
- What can we do about it?
  - Controls framework
  - Key financial controls
  - Financial Procedures
- What does good look like?
- Common pitfalls

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What questions do you have about financial controls?

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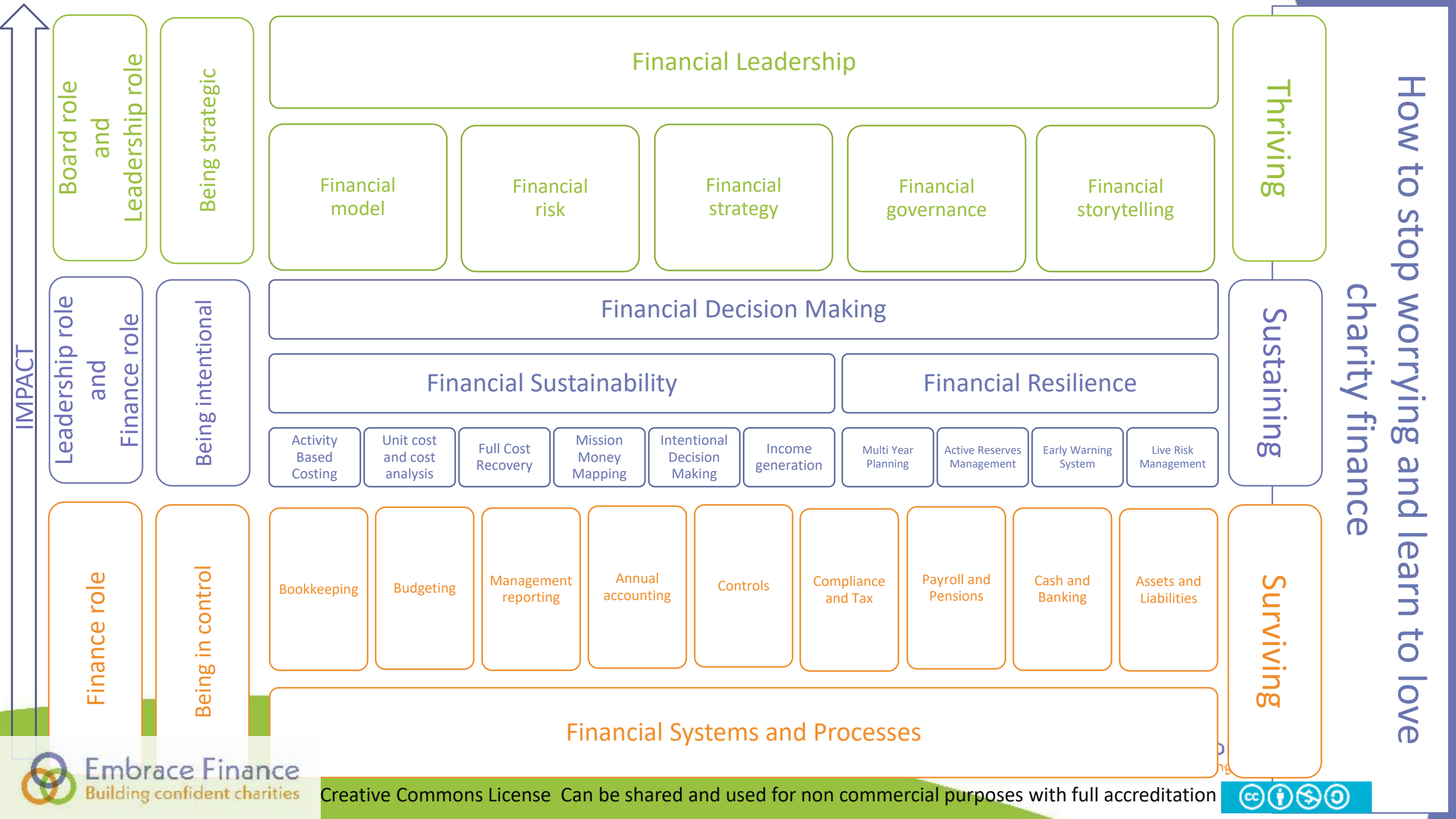

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What controls or procedures could you put in place to avoid the following situations?

1. After an event the Treasurer kindly counts all the money and records it in the cashbook as £753. When it is banked by the admin staff there is £793, but no one knows who raised the mystery £40.
2. An invoice for 500 posters ordered by the manager was authorised for payment by the Treasurer and subsequently paid. A month later the manager noticed a mistake on the posters, but the printers refused to do anything to rectify it.
3. At the end of a grant period the organisation realises it has underspent by £500 and the donor refuses to allow any more time and asks for the money back.
4. An expensive laptop turns up for a new member of staff who had arrived to discover they had no computer and was told “by someone” just to order one. This is outside the current budget.
5. The Chair authorises their own expenses and sets up the payment on the bank account and this payment is approved by the Manager (a relative). When the Treasurer looks at this later, they realise that there are some strange mileage claims.
6. The Cashbook shows that the bank balance is £4,562, but the bank statement says £5,328. Looking back, the Treasurer notices that there has been a difference between the balances of about £750 for the last six months.
7. A supplier rings, angry that they haven’t been paid but your records show you made an electronic payment last week to the new account they emailed you about. The supplier says that they have not changed their bank details (which is true) – you have paid the wrong person.

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Income

Might never see it!

Allocate to wrong place

May not thank donor – damage to reputation

Tainted donations

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Expenditure

Payroll & expenses	Pay twice	Pay wrong person
Pay wrong amount	Commit outside budget	Allocate to wrong fund

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Cash and resources

Petty cash

Cash isn't accounted for – no audit trail

Single authority for online banking/cards

Things disappear

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Fraud Risk

- "Fraud will flourish in an environment of weak governance and poor financial management".

- "We recognise that smaller charities will not usually have access to the financial infrastructure resources and capabilities that large organisations enjoy, such as an internal audit team or forensic accountancy skills. Trustees of small charities should use their judgement and their knowledge of their charities to adapt procedures according to the level of risk to their charity, taking into account the cost and burden involved".

- Charity Commission Compliance Toolkit

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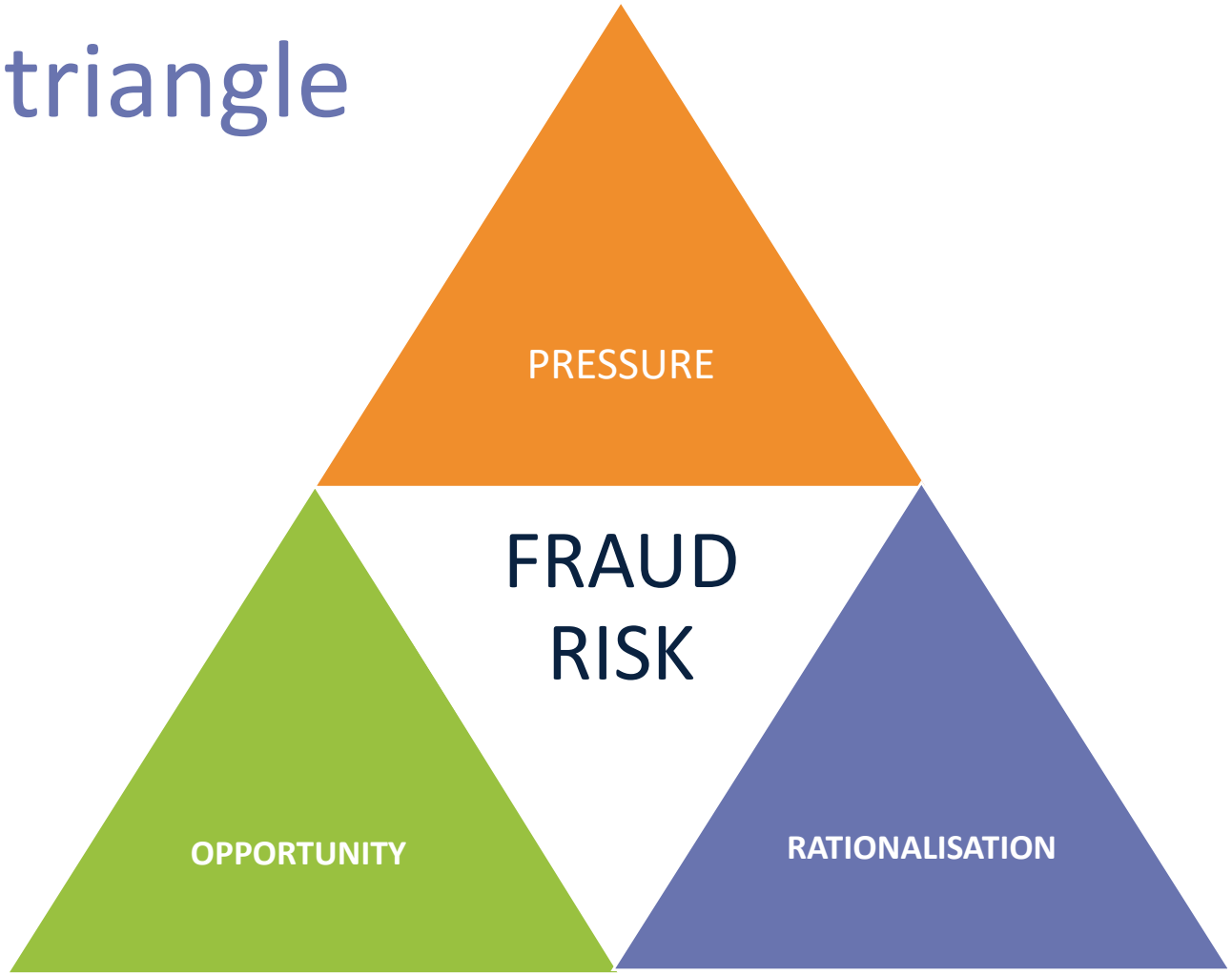
The fraud triangle



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Fraud

- People exploit system weaknesses
- Design weaknesses out of the system
- Inherent issues:
  - Cash-based fundraising
  - Unpredictable income streams
  - Branches & use of volunteers

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Cyber crime

Phishing

Ransomware

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What can we do about it?

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Financial Controls

Actions you carry out to help manage a risk of financial error or fraud.

Identify controls that reduce the likelihood – match risk and control

NB Controls only effective if you actually do them

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Controls framework

Adapted from Sayer Vincent training

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What does good look like?

Lead from the top

Consistent systems/controls apply to everyone

Reinforce the honest majority

Learning organisation – understand mistakes will happen

Risk based approach

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Key Financial Controls

Segregation of duties

- make sure that no individual can be responsible for all stages of a transaction from initiation to authorisation without checks and balances.

Budget

- overview, ensures responsibility sits with whole committee

Bank Mandate

- rules on (dual) signatories and levels of authority
- applies to cards too

Authorisation levels

- who can decide to spend what

Reporting to Trustees

- more overview

Bank reconciliation

- ensuring what's in your books agrees with the bank

Independent Examination

- what it says on the tin!

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What does the Charity Commission say?

CC8

The aims of internal financial controls are:

- to protect the charity's assets;
- to identify and manage the risk of conflicts of interest, loss, waste, bribery, theft or fraud;
- to ensure that financial reporting is robust and of sufficient quality; and
- to ensure that the trustees comply with charity law and regulation relating to finance.

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Self Assessment Checklist

Series of closed questions – linking to section of guidance

“Do the trustees carry out and annual review of internal financial controls?”

- Monitoring & Fraud
- Income
- Purchases & Payments
- Assets and Investments

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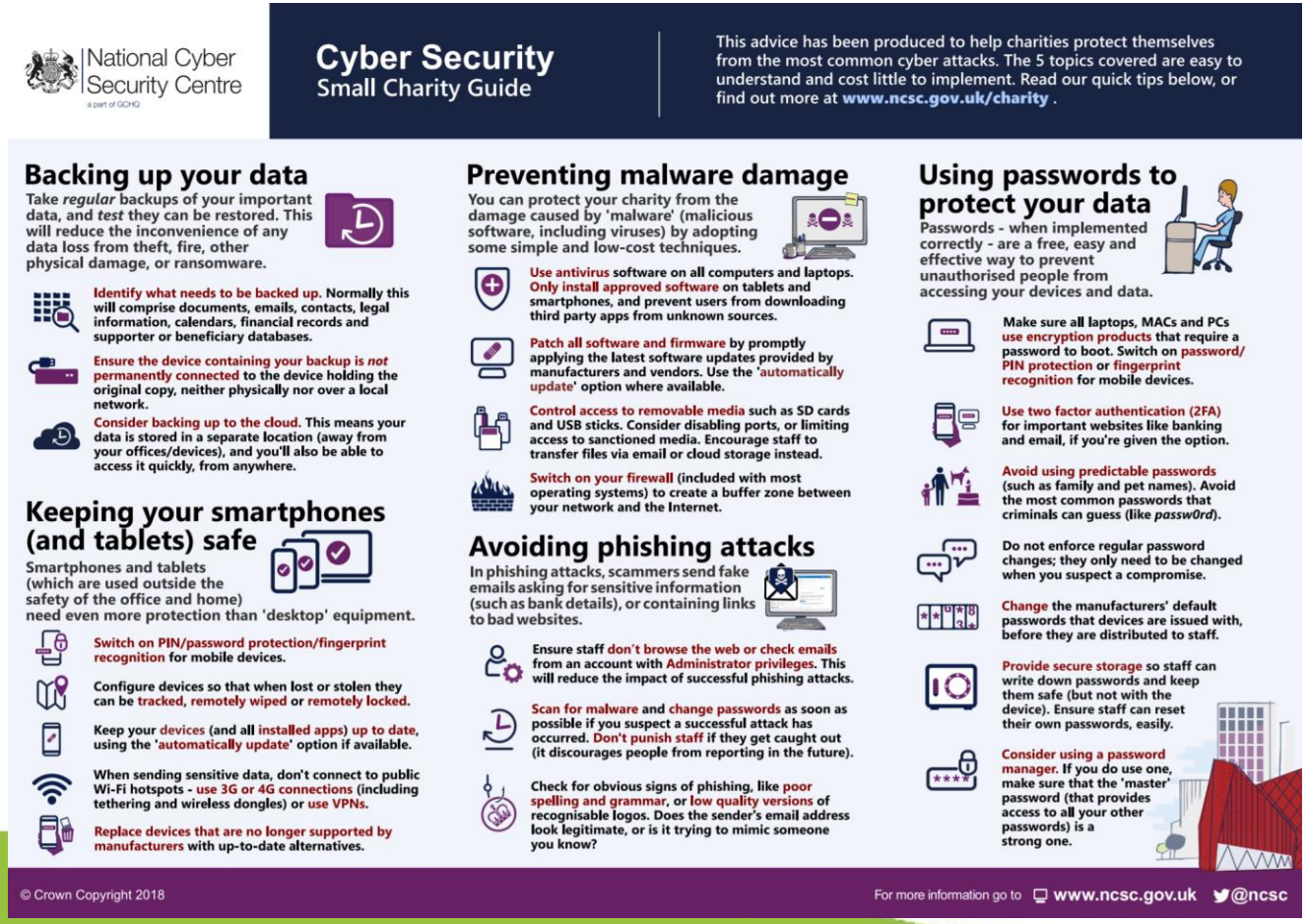
What does NCSC say?

Suspicious emails forward to: report@phishing.gov.uk
Suspicious texts to: 7726



National Cyber Security Centre
a part of GCHQ

Cyber Security
Small Charity Guide

This advice has been produced to help charities protect themselves from the most common cyber attacks. The 5 topics covered are easy to understand and cost little to implement. Read our quick tips below, or find out more at www.ncsc.gov.uk/charity .

Backing up your data

Take *regular* backups of your important data, and *test* they can be restored. This will reduce the inconvenience of any data loss from theft, fire, other physical damage, or ransomware.

- Identify what needs to be backed up. Normally this will comprise documents, emails, contacts, legal information, calendars, financial records and supporter or beneficiary databases.
- Ensure the device containing your backup is *not* permanently connected to the device holding the original copy, neither physically nor over a local network.
- Consider backing up to the cloud. This means your data is stored in a separate location (away from your offices/devices), and you'll also be able to access it quickly, from anywhere.

Keeping your smartphones (and tablets) safe

Smartphones and tablets (which are used outside the safety of the office and home) need even more protection than 'desktop' equipment.

- Switch on PIN/password protection/fingerprint recognition for mobile devices.
- Configure devices so that when lost or stolen they can be tracked, remotely wiped or remotely locked.
- Keep your devices (and all installed apps) up to date, using the 'automatically update' option if available.
- When sending sensitive data, don't connect to public Wi-Fi hotspots - use 3G or 4G connections (including tethering and wireless dongles) or use VPNs.
- Replace devices that are no longer supported by manufacturers with up-to-date alternatives.

Preventing malware damage

You can protect your charity from the damage caused by 'malware' (malicious software, including viruses) by adopting some simple and low-cost techniques.

- Use antivirus software on all computers and laptops. Only install approved software on tablets and smartphones, and prevent users from downloading third party apps from unknown sources.
- Patch all software and firmware by promptly applying the latest software updates provided by manufacturers and vendors. Use the 'automatically update' option where available.
- Control access to removable media such as SD cards and USB sticks. Consider disabling ports, or limiting access to sanctioned media. Encourage staff to transfer files via email or cloud storage instead.
- Switch on your firewall (included with most operating systems) to create a buffer zone between your network and the Internet.

Avoiding phishing attacks

In phishing attacks, scammers send fake emails asking for sensitive information (such as bank details), or containing links to bad websites.

- Ensure staff don't browse the web or check emails from an account with Administrator privileges. This will reduce the impact of successful phishing attacks.
- Scan for malware and change passwords as soon as possible if you suspect a successful attack has occurred. Don't punish staff if they get caught out (it discourages people from reporting in the future).
- Check for obvious signs of phishing, like poor spelling and grammar, or low quality versions of recognisable logos. Does the sender's email address look legitimate, or is it trying to mimic someone you know?

Using passwords to protect your data

Passwords - when implemented correctly - are a free, easy and effective way to prevent unauthorised people from accessing your devices and data.

- Make sure all laptops, MACs and PCs use encryption products that require a password to boot. Switch on password/PIN protection or fingerprint recognition for mobile devices.
- Use two factor authentication (2FA) for important websites like banking and email, if you're given the option.
- Avoid using predictable passwords (such as family and pet names). Avoid the most common passwords that criminals can guess (like *passw0rd*).
- Do not enforce regular password changes; they only need to be changed when you suspect a compromise.
- Change the manufacturers' default passwords that devices are issued with, before they are distributed to staff.
- Provide secure storage so staff can write down passwords and keep them safe (but not with the device). Ensure staff can reset their own passwords, easily.
- Consider using a password manager. If you do use one, make sure that the 'master' password (that provides access to all your other passwords) is a strong one.

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For more information go to www.ncsc.gov.uk @ncsc

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How can you assess your controls??

Go through CC8 – Charity Commission Guidance

Go through NCSC guidance

Play a game! "Charity Heist"

- From inside the organisation?
- From outside the organisation?

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Controls Matrix

When you have identified a process you are worried about:

Controls Matrix	Process what process that you want to analyse	Risk what could go wrong? Why does this process worry you?	Existing Controls – what do you already do to reduce the risks?	Possible controls what changes could you make? Be inventive, you might not adopt all of them but get them all down in a list	Action Required what changes are you going to make?	Timescale
	Making payments from current account	wrong amount, wrong supplier, double payment, false payments,	invoices over £1k shown to payment approver	Dual oversight for all supplier set up/changes Payer check invoice "stamp" for agreed to order etc etc & mark paid (test sample?)	Change bank authority Set up virtual invoice stamp	At next Trustees meeting 30 Nov 2022

Financial Procedures Manual

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Financial Policies & Procedures – key sections

- Delegation of Authority
- Budgetary control, reporting and monitoring
- Controls on expenditure – purchasing
- Bank account, cash handling and card policies
- Expenses policy
- Conflict of interests policy

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Putting it together

Find template/framework you like

Get a team together

Gather existing practice

Break it down – identify priorities

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Common pitfalls

- Control seen as finance issue not as whole org culture
- Off the shelf procedures
- No communication of procedures/controls
- Base everything on trust and hope (don't want to offend)
- Signatories don't check documents
- Control at the point of payment not at the point of commitment

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Feedback please! https://forms.office.com/r/drqa3cx5QX.

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Final thoughts

As CC25 says:

“Good management of a charity’s finances and other assets enables it to succeed in delivering its charitable aims”

- Set the tone
- Ensure there’s oversight
- Do your bank reconciliations
- And remember to think twice

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Helpful resources

CC25 Managing Charity Assets and Resources
https://www.gov.uk/government/publications/managing-charity-assets-and-resources-cc25/managing-charity-assets-and-resources#making-the-most-of-your-finances

CC8 Internal Financial Control for Charities
https://www.gov.uk/government/publications/internal-financial-controls-for-charities-cc8

National Cyber Security Centre
https://www.ncsc.gov.uk/collection/charity

NCVO:Financial procedures manual & financial management guidance
https://knowhow.ncvo.org.uk/tools-resources/financial-procedures-manual
https://knowhow.ncvo.org.uk/organisation/financial-management/processes-procedures-and-controls

WYCAS: Financial Procedures Manual (and other great tools)
https://www.wycas.org.uk/help-advice/tools/

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