The Basis Project
Building and sustaining success
Refugee Council | Refugee Action

Financial management

Section one Financial controls

1.1 What are financial controls?

Financial controls are the written 'rules' and procedures that let everyone know what should happen – who can do what, when and how. These include, for example, who can sign cheques, who maintains the cashbooks, and how petty cash is administered. Some of these rules will be laid down by the constitution (or memoranda and articles of association, in the case of registered companies) and others may simply be unwritten understandings, or ways of working traditionally adopted by the management committee (MC) or staff of the organisation. All organisations should have financial controls to ensure effective financial management.

1.2 Why does your organisation need financial controls?

In order for your organisation to develop and sustain a robust financial system, it is essential that **everyone** in your organisation knows exactly how things are to be done, who does them and the extent of responsibility that someone has. Good financial procedures and internal controls are just as important in smaller organisations. In many organisations, members of the MC will use these controls.

Your organisation should have the following internal financial controls in place:

- √ Cheque payments should require two signatures or equivalent authorisation controls if making automated payments.
- √ If possible, two people should always open the post and count cash receipts.
- √ Petty cash should be managed on an 'imprest system' (see **Section seven**).
- √ Bank accounts should only be opened by the MC.
- √ Personnel records should be kept by someone other than the person who pays salaries.
- √ A fixed assets (see **Section eleven** for the glossary of financial terms) register should be maintained and (if applicable) a list of investments.

The above internal controls have been suggested as the 'minimum requirements' for good practice with internal financial procedures. The questions written below will help your organisation to think about the best way of developing its own financial controls:

A. Records and reports

Who maintains the cash books? Where are they kept?
How often is information entered into the cash books, and by whom?
Are the cash books checked by another member of the MC? How often?
How often are finance reports presented to the MC?
Who is responsible for preparing and presenting finance reports?
What should finance reports contain?
Who is responsible for ensuring that the annual accounts are audited/independently examined?

B. Banking arrangements

Who is authorised to sign cheques?
Is there one person who always signs (for example, the treasurer)?
Where are the cheque books kept? Who has access?
Is there an upper limit of how much money can be spent on any one item without MC approval?
Who is responsible for liasing with the bank?
How often are bank reconciliations carried out, and by whom?
Who is authorised to make bank transactions (for example paying in money, transferring money between accounts)?
How often is money paid into the bank, and what supporting documentation is kept?
What is the policy on the organisation borrowing money/ arranging overdraft facilities? Who is authorised to do this?
Who is authorised to make investments on behalf of the organisation?

C. Authorisation and certification

Who is authorised to order work, goods or services on behalf of the organisation?
Is there an upper limit of how much money can be spent, above which it has to be referred to the MC?
Who is authorised to pay invoices?
Who is responsible for arranging salaries and wages documents?
Is there a mechanism for negotiating salary increases? Who is responsible?

D. Budget

When is the annual budget prepared, and by whom?
Who is consulted when drawing up the budget?
Who is responsible for monitoring the budget?
Who is authorised to make adjustments to the budget?

E. Expenses and allowances

What expenses can be claimed (for example travel, lunch, refreshments)?
Who can authorise expenses payments?
What documentation is kept (such as photocopies of travelcards used)?

F. Petty cash

What petty cash system will the organisation operate? (We recommend the Imprest system – see **Section seven** 'Imprest petty cash system').
What will be the amount of the petty cash (float - see **Section eleven** for the glossary of financial terms)?
Who will be authorised to make petty cash payments?

Is there an upper limit for petty cash payments, above which a cheque must be issued?
What supporting documentation should be kept (for example, petty cash vouchers, receipts)?
How often will petty cash payments be reconciled to the main cash book? Who will do this?

G. Income

Who is responsible for paying money into the bank?
When is this done (for example, weekly or when a certain amount is received)?
What documentation is kept?

H. Inventories

Who is responsible for maintaining an inventory (see **Section eleven** for the glossary of financial terms) of the organisation's fixed assets?
Is there a minimum purchase price for an item to be considered a fixed asset?
Is there an annual physical check of the fixed asset register? Who does this?
Are the fixed assets on the register marked for security purposes? Who does this?
Does the organisation have a depreciation policy? (See **Section eleven** for the glossary of financial terms)

I. Security

Who is responsible for introducing and maintaining adequate security arrangements for the organisation's staff, volunteers and equipment?
Who holds keys to the office and what is the policy on lending these to other people?

The above is not an exhaustive list, but rather a series of questions, which you need to think about when drawing up a set of financial controls for your organisation. These and other questions need to be considered by your treasurer, co-ordinator and anyone else involved in the management of your organisation's finances, and recommendations put to the MC for discussion and approval.

Further rules to add to your financial controls:

- Never sign a blank cheque under any circumstances.
- Always keep income separate from expenditure (for example, money from fundraising event is not used to pay volunteers' expenses).

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