

iCan Health and Fitness CIC Internal Financial Controls policy  
Community interest company, not for profit organisation

Created: 16th December 2021

Date to be reviewed: 16th December 2022

This document identifies the need for iCan Health and Fitness CIC to consult and construct an internal financial controls policy for the purpose of its combined funded and non funded income. This is to protect members, stakeholders, non executive directors and the executive directors or potential funding bodies with the purpose of those involved trusting the iCan executive directors to make considered decisions regarding its finance.

The controls put in place are monitored regularly to ensure that they are complied with and provide a sufficiently robust system for managing financial risk.

The monitoring of financial activities by directors on a regular basis is a vital part of this process.

Important financial monitoring activities include:

- Budgetary control- monitoring the company's financial performance against any given budget.
- Proper and realistic estimates of income and expenditure made for each area of the company's activities for each financial year.
- The overall budget will be set which should be agreed by the directors before the start of the financial year to which it relates.
- The company has procedures for sharing monthly or periodic financial information with budget holders, operational managers and funders or as requested.
- Other monitoring activities include a review of expected sources of income and the actual income received.
- Financial monitoring may be undertaken by the use of ratio analysis, and the comparison of performance against financial policies, for example, income reserve levels or investment performance.

- Financial monitoring will help ensure more basic controls such as bank and other reconciliations are carried out or that authorisation and approval procedures are being complied with.

### Financial auditing

In the event the company exceeds an annual turnover of £300,000 some of the monitoring activities may be undertaken by an internal or external auditor. In such cases, liaison with senior management is important so that the scope of their work and reporting responsibilities are fully understood.

Currently (2022) iCan maintains its own control of financial auditing with consultancy from Dodd and Co accounts LTD. It is unlikely that iCan Health and Fitness will have the resources to support a separate audit committee in 2022- 2023 but not impossible.

### Protecting company funds

The company raises, holds, moves and uses funds in the course of their work.

All sectors of the economy are vulnerable to financial crime and abuse, and this includes the charitable/ social enterprise sector. Social enterprises are highly valued in society and the very nature of NPO's can make them attractive targets for criminals.

Social enterprises:

- enjoy high levels of public trust and confidence
- often rely on goodwill and voluntary support in one form or another
- often depend on one or two individuals who can play a key or largely unsupervised role in running the company
- may have a global presence, including in areas of conflict and/or where there is poor banking infrastructure
- may need to use alternative remittance systems overseas
- may use intermediaries to deliver work which may involve passing funds through agents
- may have branches and/or projects that are not under the direct or regular control or supervision of company management
- may have unpredictable and unusual income and expenditure streams where suspicious transactions may be harder to identify

Criminals may exploit companies through misappropriating funds through fraud, theft, money laundering or diverting funds from legitimate work.

13 areas of risk relating to fraud and financial crime to which social enterprise companies may be susceptible:

- income-related fraud
- expenditure fraud
- property and investment fraud
- procurement fraud
- fraudulent fundraising in the charity's name
- fraudulent invoicing and grant applications
- identity fraud/theft
- banking fraud
- e-crime (including 'phishing')
- Gift Aid fraud (not applicable)
- share purchase and investment fraud (boiler room fraud)
- mass market fraud (letter or e-mail)
- section '419' (advance fee) frauds

There is a risk from financial crime at every stage of a company's activity: at the point of income generation and fundraising, in the course of the administration of the company, and when funds are disbursed. Directors and managers must ensure that they are aware of and assess the risks and take proper steps to manage them.

To guard against undue influence being exercised over the decisions being taken by directors or managers, or bribery taking place, transparency is important. Directors establish a policy on the acceptance of funds, how they are managed and by which company representative:

Currently: Lisa Bridgewater- Executive Director and Company secretary.

The directors also have a policy on donations and gifts which identifies when the accepting of donations may not be in the interests of the company. This may be justifiable where the terms of the donation are unduly restrictive or are intended to exercise undue influence over the directors or where the acceptance of the donation would be detrimental to the companies reputation.

#### Managing the risks from criminal financial abuse

Directors must consider the risk of financial crime and manage those risks. The role of internal control in managing identified risk is understood and followed by all those who work in the company whether as directors, employees or volunteers through training and a protection statement.

Directors should report and act appropriately if any incidents of financial abuse are presumed to have or could take place to the police. The company may consider any failure to report these incidents to be mismanagement and take regulatory action.

#### Protection of income received

This control policy should provide assurance that the income received by the company are kept secure, is accurately recorded in the accounting records and is banked (if required) as quickly as possible.

The amount of income received by the company may vary annually based on grant or traded income. Control in this area will be a priority of the company secretary or dedicated finance individual or management company. Particular risk may arise where a company receives donations from the public voluntarily and the pattern of giving is not predictable.

Any financial income will be held securely from the time it is received until it is spent/ returned in a secure bank account with two signatories. Whenever practical, any transfers money over £1000 should be moved in the presence of two unrelated individuals.

#### Controls in place for income from public collections and fundraising events

The company undertakes public collections and fundraising events frequently. The company ensures that they have as much control as possible over what could be a widespread network of fundraising efforts. The company must comply with the legal requirements on public collections and working with external fundraisers.

It is important that the directors or management ensure that the activities are undertaken in accordance with the various statutory regulations which cover public collections. For example, licensing arrangements must be made in advance with the appropriate local authorities.

The following internal financial controls are in place:

- at least two people are involved in handling and recording the money received
- collection boxes are individually numbered and their issue and return is recorded
- all collecting boxes are sealed before use so that it is apparent if they have been opened before they are returned
- all collection boxes are regularly opened and the contents counted
- general public collections are counted in the presence of the collectors and a numbered receipt given to them
- cash collected is banked by the charity as soon as possible without deduction of expenses

For fundraising and sponsored events the company recommends that the following controls are in place:

- records are maintained for each fundraising event, in sufficient detail to identify gross receipts or takings and costs incurred
- for all events for which there is ticket income or gate money:<sup>[11]</sup>(i) that tickets all are pre-numbered<sup>[11]</sup>(ii) a record is kept of all persons who have been issued with tickets to sell, and the ticket numbers that have been allocated to each person<sup>[11]</sup>(iii) a record is kept of which tickets have been sold<sup>[11]</sup>(iv) all money from tickets and any unsold tickets are collected<sup>[11]</sup>(v) a reconciliation is made of receipts against tickets sold

### Controls in place for trading income

Trading includes all goods and services provided for a fee and can include charitable activities where fees are charged, as well as those trading activities that raise funds for the company. Controls are designed to ensure that all income due to the company is received and recorded.

Controls will depend on the type of the trading activity carried on by the company or its subsidiaries. Controls include:

- regular reviews of trading activities to ensure that they fall within tax exemptions
- establishing a pricing policy for goods and services supplied including regular reviews of pricing structures to ensure appropriate cost recoveries
- invoicing procedures for all goods and services provided
- review of outstanding debts and debt collection procedures
- stock control procedures
- procedures to reconcile amounts invoiced and cash received to outstanding invoices

### Controls of the companies banking and custody procedures

Control will ensure that cheques and cash received are kept securely, banked promptly and recorded in the accounting records.

The following controls help ensure a basic level of protection for the companies funds:

- cheque and cash receipts should be promptly recorded in the accounting records
- cheques and cash should be banked regularly and promptly
- cheques and cheques not banked on the day of receipt should be placed in a safe or locked cash box

- funds should normally be banked gross without deduction for costs or expenses
- insurance cover for cash in hand and in transit should be considered

#### Checks the company undertakes on income records:

It is important that directors and/or the company secretary make regular checks to ensure that the accounting records of income are being accurately maintained.

Basic controls, are performed regularly, which may serve as an early warning of anything going wrong. It is recommended that regular checks are made to ensure that:

- records of cash and cheques received agree with bank paying-in slips or counter foils
- counter foils or paying-in slips agree with the bank statements, both in terms of amount banked and date of credit
- transfers or other direct payments into the bank are identified and verified against supporting paperwork

These checks will be made by someone other than the person concerned with the original recording of the transactions.

#### Controls in place for the authorisation of expenditure on grants

The company makes sure that their grant payments further their charitable purposes and that the funding is used appropriately by recipients.

Control focusses on ensuring that grant payments further the purposes of the company and that funding is used by the company for the purposes for which it was given. Controls help manage the risk of inappropriate payments and help ensure that grants are made in line with the objectives and policies of the grant-making charity. The company identifies that control over grant making should include:

- the development of grant-making policies setting out the conditions and any restrictions applying to grants awarded. Policies may set priorities for activities or projects to be funded
- procedures for the review and approval of grant applications.
- establishing monitoring procedures to ensure grants have been used for the agreed purposes

#### Controls in place for payments by debit card, credit card and charge cards

Customers to or employees of the company may make payments using debit cards, credit cards and charge cards. These payment cards provide convenience but it is important that controls are in place to ensure their correct use.

Used properly these methods of payment are generally considered to be safe by the company, but certain controls are put in place, including:

- setting a clear policy for the use of payments cards, the criteria for their issue, any spending limits and their security
- considering the need to place restrictions on, for instance, the types of retailers where the cards may be used, eg blocking their use in restaurants, food retailers or on certain websites for internal staff.
- communicating the policy for the use of payment cards clearly, in writing, to all directors and staff using them
- ensuring payments cards are cancelled and destroyed, if the individual ceases to work for the charity or if the authorisation of the card's use is withdrawn
- ensuring that debit card expenditure is supported by a voucher and/or invoice and recorded and analysed in accounting records
- copies of all credit or charge card statements being sent directly to the charity's finance team and not the individual card holder. The statements are used to record and analyse transactions in the accounting records and are matched with supporting vouchers and invoices provided to, or obtained by, holders of cards
- periodic review of card use to ensure consistency of use with set policies
- Data Protection for any customer using a bank card in the premises or EPOS system is adhered to.

#### Controls in place for payments by direct debit, standing order and Bankers' Automated Clearing Services (BACS) direct credit

The company may also make payments by direct debit, standing order and BACS direct credit. These are all safe ways of making payments provided that appropriate controls are in place. The control will provide assurance that direct payments are only made for expenditure properly authorised and incurred by the company/ directors. Control should ensure that payments are only made when authorised and that payments are accurately recorded in the accounting records.

The difference between direct debits and standing orders is that the bank account holder is the only party to the arrangement who can make changes to the amount or collection date of a standing order. With a direct debit only the recipient of the monies can amend the amount, having notified the payer before so doing.

BACS Direct Credit is a simple, secure and reliable service, which enables organisations of all sizes to make payments by electronic transfer directly into a bank or building society account. However, before setting up the system the company ensures that it has robust controls in place, because the nature of these payments makes it difficult to recall them before the payee's account is credited, in the event of errors or fraudulent transfers being discovered.

Dual-authority requires two users to complete a BACS transaction. The company has asked its own banking provider for details of their dual authority operates.

The company ensures that only specifically authorised individuals are able to set up arrangements to make payments by direct debit, standing order or BACS. The documents setting up the payments are retained as part of the company's accounting records. The payments are monitored so that the company can ensure that the arrangement is cancelled when the company stops using the goods or services being supplied.

#### Controls are in place over payments in cash

Payments in cash should be kept to a minimum due to the greater risk that handling cash presents and difficulties that can arise in establishing correctness and control over significant cash transactions.

Where payments are made in cash the company controls that:

- cash payments are for small amounts only
- cash should be paid out of a petty cash float specifically kept for such payments, and not from incoming cash or by way of direct withdrawal from the bank account
- details of payments should be entered in a petty cash book
- supporting documentation for the cash payment should be authorised by someone other than the person who maintains the petty cash or the person making the payment
- the balance of petty cash in hand, and the records, should be kept securely
- regular spot checks of the petty cash float should be made by an authorised person independent of the person who maintains the petty cash

Similar considerations apply to the use of cards which are preloaded with cash where cash withdrawals are made by using a PIN at a cash point or similar facility.

Cash withdrawals should be reviewed for authorisation and correctness by someone other than the person who withdrew the cash.

#### Controls in place for wages and salaries



The payment of wages and salaries is often a major item of a company expenditure, and therefore adequate control over their payment is essential. The main purpose of the internal financial controls is to provide assurance that the company makes payments at the correct rate to genuine employees of the company and payment of pension contributions.

The control ensures that the company is not exposed to additional liabilities resulting from a breach of statutory regulations, for example through failing to deduct and account for tax and national insurance contributions through the PAYE system.

A number of legal requirements are adhered to:

- the records required by HMRC of PAYE deducted from the wages and salaries of employees are maintained
- statutory deductions are paid to HMRC as required and pension contributions paid across to the pensions provider promptly
- deadlines for year-end returns to HMRC are met including P35, P11D and P60 or the data required for 'real time information' submissions to HMRC are complete and submitted on a timely basis
- minimum wage legislation is adhered to
- only authorised or required deductions are made from pay
- each employee has a proper contract of employment and that individuals are not incorrectly classified as self-employed
- legal obligations in relation to pension scheme arrangements are met

The company must provide access to a stakeholder pension unless it offers either an occupational or an alternative suitable personal pension scheme. The terms of any such alternative personal pension scheme must meet minimum standards set by the government. The company is aware of the changes to pensions including automatic enrolment which are being phased in from October 2012.

In addition to legal requirements which must be met, there are a number of good practice recommendations that can limit the risk of incorrect payment, including:

- holding personnel records for each member of staff separately from the pay records with periodic checks between these records to prevent payments to people who are no longer employees
- systems for authorising, recording and notifying those operating the payroll of starters and leavers, changes to pay, hours, overtime or non-standard hours, staff sickness or staff maternity or paternity leave promptly
- procedures for setting rates of remuneration for all staff ensuring that no individual has authority to set his or her own remuneration or terms of employment

- paying wages and salaries by BACS, where staff numbers make this worthwhile, as it is a safe and efficient way of making payments to staff

### Controls in place for the payment and reimbursements of expenses

Controls over expense payments are applied without exception to all those involved with the company including directors, staff and volunteers. A written policy is in force for payment of expenses.

The company only reimburses legitimate expenses properly incurred on its behalf, the policy clarifies that the company will pay expenses for travel, hotel, conference, business, training and out-of-pocket expenses, on certain terms agreed by the directors.

The policy states the requirement to complete expenses claims and to provide receipts. It clarifies any fixed payments and any cap on total payments.

It is recommended that:

- a formal expenses policy exists applying to all directors and staff including the CEO and senior management and volunteers
- The policy is clearly communicated through the company and included within induction training
- expense claims should be authorised by someone other than the claimant and checked for accuracy before payment
- expense claims should contain a self-declaration that the claim is accurate and incurred in connection with the business of the company
- to minimise the companies cash payments, reimbursement should be made by BACS transfer
- any mileage rate paid for motor travel is at HMRC rates that do not result in a tax or national insurance liability for the company or the claimant

### **Internal financial controls in practice - assets and investments**

#### Controls in place over fixed assets used by the company (functional assets)

Functional fixed assets include land, buildings, vehicles, fixtures and fittings, and equipment which are used in the company's activities. The control over fixed assets is to ensure that assets can be identified, recorded in accounting records and are used for the company purpose.

The directors have a duty to safeguard the assets of the company from loss or damage and to ensure the proper use within the company.

It is recommended that:

- a financial threshold should be set for the capitalisation of expenditure on fixed assets within the accounting records
- a list or register should be maintained of all assets whether purchased by, or donated to, the company for its continuing use. This record shows the cost (or value) of the asset and provide sufficient detail to enable an asset and its location to be identified
- fixed assets should be inspected at regular intervals to ensure that they exist, remain in good repair and are being put to appropriate use
- the disposal or scrapping of fixed assets be appropriately authorised and recorded in accounting records and in any fixed asset register
- the adequacy of insurance cover is reviewed at regular intervals
- the boundaries of any land and building are secure and recorded appropriately with the Land Registry
- the title deeds to land should be held securely and record adequately the companies interest in the land

### Controls over investments

Directors have a duty to apply the companies income for the benefit of its beneficiaries. This usually means income should be spent rather than invested. However, it is possible that some traded income/ funds will be retained within the context of a reserves policy and where appropriate invested. The company may also hold endowed funds which are invested to provide income. It is important that the directors make sure these investments are safeguarded.

There are a number of important financial controls including:

- Directors setting an investment policy
- programme related investments are made solely to further the company's charitable aims, the terms are documented and for any loan advanced a repayment schedule is in place
- when making 'mixed motive' investments the directors are clear at the outset on the balance between obtaining a financial return and furthering the companies charitable aims and record the basis upon which the investment is made, and the anticipated financial return
- the need to consider the suitability and diversification of investments, including investments in deposit accounts, to ensure that the failure of one investment or institution does not have a major impact on the company
- taking professional advice, where the directors do not have the necessary expertise, before selecting or disposing of investments
- regular review of investment performance
- regular inspection of any investment properties to ensure adherence to tenant covenants

- maintaining records of all investments held (including details of all those sold or purchased) by the company
- accounting controls to ensure that all dividends, rent or interest payments due are received and that all purchases and sales of investments are properly authorised and recorded

#### The companies use of electronic banking

The company finds electronic banking convenient. However, in order to maintain the security of bank accounts basic control procedures are adhered to that directors ensure are in place.

The company uses banking online through a dual authorisation system.

Internal financial controls are in place for electronic banking, for example:

- there is clear segregation of duties to prevent any single person from being able to control substantial resources or obtaining unauthorised access to account information
- there is proper approval for movements between, and payments from, bank accounts

The level of risk involved in using electronic banking may vary considerably depending on how the facility is used. Possible uses may include:

- use of the system simply to obtain information about the account and not to undertake any transactions which poses low risk
- allowing one authorised signatory to initiate transactions.

The company has asked its own banking service provider for details of the products and services used.

In order to maintain the security over electronic bank accounts there are a number of basic precautions that are put in place including:

- retaining print outs of statements as part of the accounting records
- keeping all PCs with access to the online banking facilities secure
- ensuring all PCs are up to date with anti-virus, spyware and firewall software
- keeping all the password(s) and PIN(s) secret
- changing passwords periodically and following changes in authorised staff and directors
- adequate training for those using the companies computer systems

- treating emails received relating to bank accounts with caution, in particular, directors and staff should not respond to emails or telephone calls asking for personal security details