

## **Case Study – financial controls**

A charity had financial controls and reporting in place, but these were not strong enough to prevent theft. An employee took advantage of this to transfer large sums of the charity's money into her own bank account. This went unnoticed as the employee transferred relatively small amounts over a period of time. However, in total, over £60,000 was taken.

### **What happened?**

A newly appointed trustee had accounting experience and became suspicious of the employee's behaviour when he requested financial reports. He discussed his concerns with the other trustees and monitoring checks were carried out, along with a review of the charity's procedures. This uncovered payments made from the charity's accounts to the employee's own account, and other suspicious transactions. The charity found that its staffing problems had meant that its usual checks and procedures had not been properly followed. The charity interviewed the employee, and the theft was admitted.

### **Outcome**

The charity reported the matter to Police Scotland. They also contacted their accountants and asked them to conduct a forensic audit. The charity contacted us to make us aware of what had happened, and the action they had taken.

Unfortunately, the theft placed the charity in a precarious financial position. As well as the theft, it incurred significant legal and accountancy fees and did not have insurance for this. The trustees seriously considered winding up the charity. However, they were able to scale back their operations significantly for a time and, with external support, were able to recover and continue their work in the community.

### **What can you do to protect your charity?**

It's vital that you have proper controls in place to protect your charity's assets.

- At least one of your trustees should have financial experience and understanding, but remember – all of the trustees are equally responsible for the charity's financial affairs.
- You should have proper procedures in place for handling money and making payments – and these should be regularly reviewed and updated.
- Use standard practices – for example, all cheques should have at least two signatories.
- Don't just leave it in the hands of employees – while it's important to trust your staff, trustees are the people ultimately responsible for the charity. Trustees must make sure that they get regular financial reports and updates, and understand what these mean.

- Don't be afraid or reluctant to ask questions – indeed, you have a duty to do so.

### **Guidance and support**

- You can [read our guidance on preparing charity accounts](#)
- You can find help with financial and accounting practices from bodies such as [SCVO](#) and [ICAS](#).
- Be vigilant - here are some guides on spotting fraud, from [KPMG](#) and the [Australian Charities and Not-for-profits Commission](#).