



# TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

*Regulating with Honesty, Integrity and Transparency*

8 September 2022

## REGULATORY ADVISORY GUIDANCE ON INTERNAL FINANCIAL CONTROLS

Internal financial controls are used to prevent/minimise the misuse of an NPO, which would mitigate the risk of the NPO being used to finance terrorism or in the facilitation of other crimes. By ensuring that funds are used appropriately, financial affairs are well managed, adequate accounting records are kept, and that relevant financial information is prepared in a timely manner, an NPO would be able to identify and manage the risk of terrorist financing. Internal financial controls do not eliminate risks, but they can help controllers identify problems sooner and take the necessary action. Some controls can also help to ensure that an NPO achieves good value for money.

Internal financial controls should be set out in writing (e.g., Policies and Procedures Manual) and describe the procedures that an NPO will follow, as well as the persons vested with certain responsibilities. The goal of internal financial controls is to create practices within the NPO that serve as “checks and balances” on staff, controllers, and outside vendors, to ensure the proper use of the NPO’s assets.

Financial controls are important for all NPOs regardless of their size, the complexity of their structures, and the level of risk of terrorist financing; all NPOs must protect their assets and ensure that its resources are used in a manner that allows for them to achieve their purpose and objectives. Not all controls will be relevant for all NPOs; it is for controllers to decide which controls are appropriate for their NPO. The controls put in place by controllers should be proportionate to the risks involved.

The UK Charity Commission published a checklist of internal financial controls which are found below, with modifications to fit TCI NPOs. The checklist below looks at various areas of financial activity and sets out several internal financial controls that can be used to reduce the risk of NPOs being used in financial crimes, such as terrorist financing and money laundering.

### I. Some key issues and monitoring arrangements for financial crimes

<b>1. Financial controls throughout the NPO</b>	<b>Yes</b>	<b>No</b>
Is there segregation of duties to provide ‘double check’?		
Do controllers carry out an annual review of the internal financial controls?		
<b>2. Monitoring activities</b>	<b>Yes</b>	<b>No</b>
Are the budgets of income and expenditure prepared, and approved by the controllers?		



Is performance measured against budgets at regular intervals and explanations sought for variances?		
<b>3. Internal audit and audit committee</b>	<b>Yes</b>	<b>No</b>
Have the controllers considered the need to appoint an internal auditor or set up an audit committee?		
<b>4. Information and communication</b>	<b>Yes</b>	<b>No</b>
Are the controllers provided with regular information about the financial performance of the NPO?		
Do controllers discuss the financial performance of the NPO at each meeting?		
Are terms of reference in place for any finance sub-committee or similar sub-groups of the board?		
Does any finance sub-committee report to the full board of controllers for final decision making?		
<b>5. Controllers' responsibilities</b>	<b>Yes</b>	<b>No</b>
Are sufficient accounting records kept of all transactions?		
Are the accounts formally approved by controllers at an annual meeting?		
Have the accounts been certified by an accountant?		
Are newly appointed controllers given a copy of the latest accounts?		
Do the controllers provide an annual report to the members and donors?		
Do the controllers file the update form <sup>1</sup> and annual accounts on time?		
<b>6. Managing the risks of financial crime and abuse</b>	<b>Yes</b>	<b>No</b>
Are controllers and staff made aware of why the NPO is at risk from financial crime and abuse and of typical examples of potential fraudulent activities?		
Does the NPO have an anti-bribery policy, policies on the acceptance of hospitality, the acceptance of donations, and a register of interests?		
Does the NPO have policies and controls over access to and storage of electronic information?		
Does the NPO have computer programmes to protect its data and systems from external interference?		
Does the NPO have procedures for reporting suspicions internally, to the Financial Intelligence Agency and to the Commission?		

## II. Income

<b>1. Income received in the post</b>	<b>Yes</b>	<b>No</b>
Is incoming mail opened in the presence of two unrelated people?		
Are all incoming cheques and cash recorded immediately?		
Does the NPO keep unopened mail secure?		
<b>2. Income from public collections and fundraising events</b>	<b>Yes</b>	<b>No</b>
If the NPO undertakes public collections or fundraising events:		

<sup>1</sup> An update form is a supervisory questionnaire which the NPO Supervisor requires an NPO to complete in order to update their registration information and develop an accurate terrorist financing risk profile of the organisation.



• are collection boxes numbered and their allocation and return recorded?		
• are all collection boxes sealed?		
• are all collection boxes regularly opened and counted by the NPO and a record kept of their locations and history of takings?		
• are two unrelated people involved in counting and recording the income?		
• is cash banked as soon as possible and without deduction of expenses?		
• are records maintained for each fundraising event?		
For ticket incomes are:		
• tickets pre-numbered?		
• records kept of all persons issued with tickets to sell, and which ticket numbers they have been allocated?		
• records kept of which tickets sold?		
• reconciliations made of money received against tickets sold?		
<b>3. Substantial donors</b>	<b>Yes</b>	<b>No</b>
Has the NPO identified donors donating in excess of \$10,000 as a single donation or cumulatively, during the year are disclosed in the Statement of Donations sheet in the Financial Reporting Form?		
<b>4. Trading income</b>	<b>Yes</b>	<b>No</b>
If the NPO undertakes trading activities (trading in furtherance of its objects):		
• does the NPO have a pricing policy for the goods and services supplied?		
• does the NPO have invoicing procedures for goods and services supplied?		
• does the NPO review outstanding debts and collection procedures?		
• are there procedures to reconcile amounts invoiced and cash received to outstanding invoices?		
<b>5. Banking and custody procedures</b>	<b>Yes</b>	<b>No</b>
Are incoming receipts banked promptly?		
Are funds banked without deduction of expenses?		
<b>6. Checks on income records</b>	<b>Yes</b>	<b>No</b>
Are regular checks made to ensure income records agree with the bank paying-in books and statements?		
Are checks made by someone other than the person who made the entry in the accounting records?		

### III. Purchases and payments

<b>1. Controls and authorisation of expenditure on goods and services</b>	<b>Yes</b>	<b>No</b>
Is there a written policy on the authorisation of expenditure?		
Are invoices received checked against orders confirming pricing and the receipt of the goods or services ordered?		
<b>2. Controls and authorisation of expenditure on grants</b>	<b>Yes</b>	<b>No</b>
If the NPO makes grants, does it have a grant-making policy?		
Does the NPO make and monitor grants in accordance with the grant-making policy?		



<b>3. Payment by cheque</b>	<b>Yes</b>	<b>No</b>
Does the NPO follow any stipulation in the governing document about who can sign cheques?		
Does the bank mandate require at least two signatories?		
Is there a practice of not signing blank cheques?		
Are cheque books etc kept in a secure place with access only by nominated persons?		
Are any monetary limits placed on an individual's signing recorded in writing?		
Is all cheque expenditure recorded in the cash book and noted with the relevant cheque number, nature of payment and payee?		
Are cheques signed only with documentary evidence of the nature of the payment, e.g. invoice?		
<b>4. Payments by debit/credit/charge card</b>	<b>Yes</b>	<b>No</b>
Does the NPO have a policy for the use of payment cards, including the criteria for their issue, spending limits and security?		
Does the NPO communicate the policy for the use of cards to all controllers and staff using them?		
Are cards cancelled when the holder ceases to work for the NPO?		
Is all card expenditure supported by vouchers and invoices and recorded in the accounting records each time the card is used?		
Are card statements sent to the NPO finance team and checked to supporting records and invoices?		
Is the cardholder's use of the card independently reviewed periodically to confirm its use is consistent with the policy?		
<b>5. Payments by direct debits (SWIFT, BACS, etc.) and standing orders</b>	<b>Yes</b>	<b>No</b>
Are only named individuals authorised to set up direct debits, standing orders and direct credits?		
Does the NPO use a dual authorisation system for electronic payments?		
Does the NPO monitor the arrangements to ensure that automatic payment arrangements are cancelled when the goods and services are no longer being supplied to the NPO?		
<b>6. Payment in cash</b>	<b>Yes</b>	<b>No</b>
Is every effort made to minimise cash payments?		
Are all payments by cash made from a cash float and not from incoming cash?		
Is supporting documentation authorised by someone other than the person maintaining the petty cash or the person making the claim?		
Are details of all payments entered in a petty cash book?		
Are regular independent checks made of the petty cash float and records?		
<b>7. Wages and salaries</b>	<b>Yes</b>	<b>No</b>
Are statutory deductions (National Insurance and National Health Insurance) made from employees' wages and salaries and regularly forwarded to the National Insurance Board and the National Health Insurance Plan?		
Are any other deductions from salaries made only where they are required or authorised?		



Are wages and salaries recorded in the NPO Financial Reporting Form?		
Do all employees have contracts of employment?		
Are personnel records kept and held separately from wages records?		
Are salary levels properly authorised and recorded?		
Is there a system of authorisation for recording and notifying starters and leavers, changes of hours and other payroll changes?		
Are payments made by direct debit payments?		
<b>8. The payment of expenses and reimbursements</b>	<b>Yes</b>	<b>No</b>
Does the NPO have a written policy to cover the payment and reimbursement of expenses?		
Is the policy communicated to all controllers, staff and volunteers?		
Are expenses reimbursed only where the individual incurred the expense in the course of carrying out the NPO's business?		
Does the expense claim include a self-declaration that the claim is accurate and incurred on the business of the NPO?		
Are reimbursements made by direct debit payments or cheque?		
If the NPO pays mileage rates for travel, are the rates in accordance with the NPOs approved rates?		
<b>9. Loans</b>	<b>Yes</b>	<b>No</b>
Are the terms of the loan documented?		
Does the NPO have a repayment plan in place to repay the principal and any interest due?		
<b>10. Checks on expenditure records</b>	<b>Yes</b>	<b>No</b>
Are regular checks made to ensure expenditure records are accurate and agree with the bank statements?		
Are regular checks made to ensure no discrepancies between the payments made and the original invoice or payment records?		
Are checks made by someone other than the person who made the entry in the accounting records?		

#### IV. Assets and investments

<b>1. Controls over fixed assets</b>	<b>Yes</b>	<b>No</b>
Is a comprehensive fixed asset list held and updated regularly?		
Are assets checked regularly to ensure they are still in good repair and are of use to the NPO?		
Has insurance cover been considered?		
Is the use of fixed assets reviewed annually (to ensure they are put to best use and serving the NPO's interests)?		
<b>2. Investments</b>	<b>Yes</b>	<b>No</b>
Does the NPO have an investment policy?		
Does this policy include the need to consider diversification of investments, including bank accounts?		
Is the performance of investments regularly reviewed?		
Is professional advice taken, where appropriate, on the selection or disposal of investments?		



Does the NPO inspect investment properties to ensure tenant covenants are adhered to?		
Are there controls to ensure that all investment income due is received?		
<b>3. Money held as a current asset</b>	<b>Yes</b>	<b>No</b>
Are secure records held of all bank and other accounts?		
Are bank statements regularly received and regular bank reconciliations carried out?		
Are instructions to open or close accounts properly authorised and reported to controllers?		
Are checks made to ensure that there are no dormant accounts?		
Are the accounts monitored to ensure there is no third-party use?		
Do the controllers regularly review the costs, benefits and risks of their current and deposit accounts?		
<b>4. Electronic banking</b>	<b>Yes</b>	<b>No</b>
If the NPO uses electronic banking to make payments does the system used require authorisation of transactions by two individuals?		
Are PCs kept secure with up-to-date anti-virus and spyware software and a personal firewall?		
Are controllers and staff made aware of the need to ensure that the NPO's security details (including the password and PIN) are not compromised?		
Is the PIN and password regularly changed, for example to mitigate the risks of compromising security when individuals leave the NPO?		
Does the NPO maintain a list of persons (controllers and staff) who are approved to have access to the PIN and password?		
Does the NPO keep an audit trail of electronic banking transactions?		
Have those using online banking facilities been trained in their use?		
<b>5. Non-traditional banking</b>	<b>Yes</b>	<b>No</b>
If the NPO uses non-traditional banking methods:		
• are policies set and approved by controllers defining the circumstances when non-traditional banking methods may be used?		
• is the use of such methods limited to essential transfers where traditional banking methods cannot be used?		
• does the NPO keep an audit trail of non-traditional banking transactions?		
• does the NPO ensure that the controls that are in place for its traditional bank transactions also operate with non-traditional banking transactions?		

The implementation of appropriate and proportional controls will be considered by the NPO Supervisor when considering the terrorist financing risk of an NPO.

Please be guided accordingly.

**NPO Supervisor**