

## How can we improve financial management and internal controls?

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All charities should try to protect their financial administrator(s) from wrongful accusations, and demonstrate that they have done due diligence to prevent misappropriations and fraud.

The best place to start is with a detailed review of internal controls and procedures. Good policies and procedures prevent problems.

Examples of issues you may want to consider include:

1. **Division of duties** >> Does the same person make deposits, write cheques and reconcile the bank? Ideally each of these would be done by a different person.
2. **Control of cash/cheques** >> Do two or more people count and record each offering or the day's mail receipts (at least the cash)? Is this reconciled to the actual deposits later? Is undeposited money kept in a secure place? Does the treasurer always give by cheque? Are donors encouraged to NOT give cash?
3. **Timeliness** >> Are bank reconciliations done on a timely basis? Are cash basis financial reports available within a week of receipt of the bank statement? Are bills paid on time (i.e. no late charges)?
4. **Reporting** >> Is this done monthly? Are budget comparisons included? Are all designated revenues and expenses included? Are all bank balances included? Are requests for financial information answered within a reasonable time?
5. **Review** >> Are the offering count sheets reconciled to the bank statement? Are the bank reconciliations reviewed by someone each month? This would be especially appropriate where good division of duties is not possible due to a small staff.
6. **Annual "audit"** >> Does your charity have an audit each year? Or at least a review by a qualified person not involved with the finances? Does the auditor report directly to the board or the audit committee of the board (i.e. not to the finance person)? Are the audit or review procedures done on a timely basis? Do you have an audit committee?
7. **Receipts** >> Are the donation receipts sequentially numbered? Are totals of receipts issued for the year reconciled to the financial statements and the annual return (T3010)?
8. **Backups** >> Is accounting data backed up on a regular basis? Are the backups stored offsite? Do you periodically check whether this data can be restored?
9. **Statutory filings** >> Is the annual return filed on a timely basis? Is a copy of the signed return as submitted to the Canada Revenue Agency (CRA) provided to the board chair or finance

chair? Are taxes withheld where required for foreign speakers and performers? Are T4 slips prepared for employees? Are T4A, T5007 and NR-T4A slips prepared where required by law? Are GST rebates claimed?

10. **Other** >> Is your finance person in personal financial difficulty? Is he/she related to, or living in the same household as, a staff member? Does the finance person take regular vacations? Is there a second person that takes over during vacations or leaves of absence of the regular finance person?

You – or better yet, a knowledgeable outside consultant – should review existing procedures and determine which of the above should be implemented. Of course this list is only a start. There are many other issues to consider, some of which will be unique to your specific organization and/or situation.

Consider obtaining insurance that covers directors, officers, employees and volunteers. Check whether your policy includes coverage for financial improprieties. However, don't forget that insurance only helps after a problem occurs.

***All of these controls and procedures protect the finance person from wrongful accusations as much as they are designed to prevent fraud and other improprieties. When all is said and done it is important not only to do the right thing, but to be perceived as doing the right thing. That is one of the best ways to inspire your congregation or donor base to give.***

## What is the legal framework charities should be aware of?

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Not all questions are easy to answer. The unique facts of each situation must be considered in arriving at a solution. It is helpful to understand the major considerations involved in coming to a decision.

1. **Federal income tax legislation** >> The Income Tax Act (Canada) and the Income Tax Regulations include legislation specific to charities. This applies to all Canadians. Of course the Income Tax Act also applies to how employees of charities are taxed.
2. **Provincial jurisdiction** >> Charities are under the jurisdiction of the provinces. Each province has its own laws affecting charities. The provinces differ in what they are monitoring or regulating. Do you know what's important in your province?
3. **Common law** >> Decisions the courts have made over the last 400+ years, known as the common law, are relevant when there is no specific legislation addressing an issue. Court decisions resulting from the adjudication of differences of opinion regarding complex legislation also help. From time-to-time legislation is introduced that replaces the common law on specific matters.
4. **Administrative practices** >> Administrative practices of the Canada Revenue Agency (CRA) and the provinces may also be relevant. For example, a charity may receipt 100% of a donation, even though it gives small gifts to donors, provided the gifts comply with the "de minimis" rules. These rules are NOT the law – just longstanding CRA practices.
5. **Materiality** >> A \$10 error will not usually be of concern to the authorities, unless it is only the "tip of the iceberg." On the other hand, a \$10,000 item could result in a church or charity losing its charitable organization status.
6. **Other** >> Sometimes there is no solution that is technically correct or the law is not clear. In certain situations "acceptable practices" have developed over time.

***The exercise of "professional judgement" and "due care" must consider all of the above in arriving at an appropriate course of action. Where the law is clear, the answers should also be clear. Where it is not, it is important to understand why and how decisions were arrived at.***



## Why should church books be reviewed every year?

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Your treasurer should appreciate an annual review of church books by a qualified person(s). The review is at least as beneficial to the treasurer as it is to the church. The reasons for a regular review will vary in importance with different churches, but all are relevant.

1. **To help the treasurer** >> The reviewer(s) may have ideas that save the treasurer time and money. The treasurer may be encouraged to make their bookkeeping procedures more efficient and effective. There may be practical suggestions that will help the treasurer **appear** to be honest in addition to actually being honest.
2. **To confirm the treasurer is honest** >> All treasurers want their church to know they are honest, not only think they are. Conducting a review in no way questions a treasurer's integrity – it confirms it.
3. **To protect the treasurer from rumours** >> A treasurer can be wrongly accused but have no way of proving his/her honesty. Even if he/she could, many people choose to believe the more interesting story at worst or are left with questions at best. Gossip can do tremendous damage. A previously implemented review practice is more helpful than a retroactive review to stop gossip.
4. **To protect the treasurer from the errors/frauds of others** >> There are other people who handle the money – ushers, substitute treasurers, bank clerks, etc. Any one of these can make a mistake or deliberately cheat and make it look like the treasurer did it.

Should a problem be caused by any other person, many people will immediately question the past. Did these problems happen before? For how long? Because placing the blame may be impossible, the treasurer is open to suspicion.

If an annual review has been conducted the church will normally not have to worry that the problems go back more than one year. That takes a tremendous load off the shoulders of all involved.

5. **To discover irregularities** >> There are enough cases of long-term senior employees and volunteers who succumb to temptation that churches are wise to consider "insurance" in the form of regular reviews by knowledgeable people.
6. **To prevent temptation** >> A comparison with speeding on the highway is appropriate. Whether you normally speed or not, the mere knowledge that a patrol car is in the area is enough to (a) prevent you from speeding and (b) make you more careful about all other aspects of traffic law and courtesy.

We know that money can do strange things to people, especially those in financial difficulty or sharing an inheritance. Prevention is better than a cure.

***A regular annual review by qualified persons minimizes the likelihood of problems. Although you can never be 100% sure, it is reasonable for a church to take precautions that are relatively easy to implement. Who knows – some day your treasurer may be the one who is most grateful that an annual review process was implemented.***