News story: Alert for charities – use the regulated financial sector

The UK's three independent regulators of charities (Charity Commission for England and Wales, Office of the Scottish Charity Regulator and Charity Commission for Northern Ireland) are issuing this alert to charities to advise that the regulated financial sector should be used see end note 1.

It applies to a charity when it receives, holds, moves or uses money, particularly those moving funds internationally.

This alert is being published to raise awareness amongst charities – including their trustees, employees and volunteers – of the need to use bank accounts in the regulated financial sector and the benefits of doing so see end note 2.

It is the charity regulators' view that all charities need to have access to, and use, a bank account in the charity's name in the regulated banking system. Trustees need to be able to use banking facilities, where they are available, to safely receive, hold and move charity funds.

Appropriate use of a bank account is a good way for trustees to demonstrate audit trails for the receipt and movement of money, and that they are discharging their legal duties to keep funds safe and meeting key elements of good governance and prudent financial management see end note 3.

The charity regulators would be concerned if a charity did not have a bank account in its name. If a charity does not have access to a secure bank account, then its funds would be at greater risk and the steps that trustees must then take to safeguard those funds, and ensure that the necessary records of income and expenditure are held, are likely to be more difficult and create a disproportionate extra burden on the trustees.

If charities use cash and other methods to transfer and move funds, the trustees must be able to show that this is a reasonable decision in the circumstances, and the risks have been appropriately managed. Trustees must also ensure that proper due diligence has been carried out, other safeguards including appropriate financial controls are in place, and all records and documentation in connection with their use are kept.

In a joint statement Helen Stephenson, David Robb, Frances McCandless, the CEOs of the charity regulators said:

> The regulated financial sector plays an important role in modern society across the United Kingdom, particularly for charities, large and small, local, national and international.

The financial services provided by banks and financial institutions provide safe, responsible, efficient and transparent way for charities to conduct their financial affairs. Every charity should have a bank account in its name to help keep its funds secure.

This is the most prudent and responsible way to protect funds and evidence the movement of those funds in most cases. It is in the best interests of charities to hold and move funds through the regulated financial sector where it is available – if other methods to hold or move funds are used they involve higher risks and in some cases can result in slowing down charitable assistance to beneficiaries.

Reporting concerns to the charity regulators

The Charity Regulators expects trustees to make sure that any problems which may arise with the use or movement of charity funds are reported to the relevant charity regulator.

Guidance about the reporting regimes and what needs to be reported can be found on the Charity Regulators' websites:

In summary, the Charity Regulators' advice for charity trustees is:

1. Remember you have a legal duty to protect charity's funds, ensure they are not placed at undue risk and ensure that they are used for the charity's proper purposes. Good financial stewardship, including having appropriate banking arrangements, is also a key element of good governance. It is difficult to see, where regulated banking services are available, how trustees could show they discharged their legal duties if they did not use them to ensure the charity's funds were secure and safely transmitted.

2. Modern banking systems are generally highly sophisticated and reliable, but this does not mean that the banking system is entirely risk-free and that trustees can simply assume that charitable funds held in a bank account will always be secure. Apart from the risk of loss caused by honest mistake or lack of attention to procedures, trustees should be aware that charities, like other organisations, are vulnerable to fraudulent activity, which means they do need to ensure proper financial controls and appropriate arrangements to check financial activity are in place as part of prudent financial stewardship of their charity's affairs.

3. The banking system in the UK is regulated and is generally accepted to be safe, particularly for moving funds internationally and in a transparent way. Any associated risks are usually manageable and

reasonable. As a matter of general principle, trustees should therefore manage the charity’s financial affairs through appropriate accounts with one or more authorised banks or other regulated financial institution (for example a building society) offering those services. Wherever they are available, trustees should use them.

4. In situations where alternative methods of holding or moving funds are used, trustees will need, so as to manage the higher risks, to do more to demonstrate that funds have and can be accounted for and are adequately protected.

End notes

1. Alert issued as regulatory advice under section 15(2) of the Charities Act 2011 for England and Wales, the Charities and Trustee Investment (Scotland) Act 2005 for Scotland, and section 49(4) of the Charities Act (Northern Ireland) 2008 for Northern Ireland.

2. The regulated financial sector means a financial institution regulated by the Financial Conduct Authority.

3. The Charity Regulators take into consideration exceptional or particular circumstances why formal banking facilities are not available to charities moving funds internationally such as operation in a war zone or other area where such facilities are unavailable.