

## Case Study – Financial controls

We received an allegation of misuse of restricted funds. The charity’s trustees were transferring funds from one project to another, without the knowledge or permission of the funders.

### What happened?

It became apparent that restricted funds had indeed been moved inappropriately between various accounts held by the charity. However, this was due more to the Chair’s lax attitude towards financial administration than the wilful misuse of funds. Unfortunately, this lack of governance had deterred other funders from supporting the charity. The Board was ineffectual as they had no clear understanding of their duties.

### Outcome

The Chair resigned and charity’s trustees discussed the best route forward. The trustees sought the help and support of the local Third Sector Interface, where they received training and support on financial management and the appropriate use of funds.

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

Charity trustees must understand the difference between ‘restricted’ and ‘unrestricted’ funds and manage them appropriately. If a fund is restricted it can **only** be used for the stated purpose. It cannot be transferred to another project or fund without the funder’s permission.

- In any case, charity trustees must ensure that appropriate financial controls are in place and that these are followed.
- At least one of your trustees should have financial experience and understanding, but remember – all of your trustees are equally responsible for the charity’s financial affairs.
- Trustees must make sure that they get regular financial reports and updates, and understand what these mean.

### 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 [ICAS](#) and [SCVO](#).