



CHARITY COMMISSION
FOR ENGLAND AND WALES

COMPLIANCE TOOLKIT: PROTECTING CHARITIES FROM HARM

Chapter 4: Holding, moving and receiving funds safely in the UK and internationally



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1. Introduction

1.1 What is the purpose of the chapter?

The purpose of this chapter is to remind charity trustees of their legal duties and responsibilities in respect of holding, moving and receiving funds safely, including when moving those funds internationally, and to help them with practical advice and guidance to ensure they properly discharge those duties.

All charities need money or financial assistance of some kind to carry out their work. They may receive money from donors and sponsors, from fundraising activities, from membership subscriptions or from charging for their charitable services. They spend money in a variety of ways, for example on running the organisation, on charitable projects to help beneficiaries and by giving grants to other charities and organisations. Charities which work internationally often move money across international borders and spend it in other countries, encountering different financial systems and needing to use different currencies.

Whatever the charity and its type of activity, all charity trustees are legally responsible for ensuring the charity's money is used properly for legitimate charitable purposes and safeguarded from loss. Trustees must always act to protect property owned by the charity. Ensuring strong financial management procedures and proper internal controls, and applying a common sense approach, will help trustees meet their duties. They also need to promote the transparency and accountability of their charity, particularly as regards its finances, which is so important for public trust and confidence in charities.

Most countries in the world have formal banking systems in place. Using such systems is a prudent way to ensure that charity funds are safeguarded, and that appropriate audit trails are produced of the sort which trustees must keep for the receipt and use of money. This chapter explains why charities need to have and use bank accounts; what trustees' duties are when using the banking system; and the particular issues which arise in connection with exchanging sterling for other currencies.

However, charities may need to use and work in cash to some degree, some charities more than others. Charities may need to use alternative financial systems to hold or move the charity's money, or when spending it in furtherance of the charity's purposes. This guidance provides advice to trustees about what things they need to consider if they have to use these alternative methods, and considers the various ways in which funds can be transferred in circumstances where the use of banking facilities may not be possible.

These methods include the use of cash couriers, the use of money transfer facilities to transfer funds through Money Service Businesses (in the high street or via the internet), 'hawala' banking (used in Muslim communities), 'chiti' banking (used in Hindu communities), 'chop-shop' (used in Chinese communities), 'fei-ch'ien' and 'hui kun' (used in South East Asia), the transfer of funds facilitated by mobile telephones (used in some African countries), and the use of multi-function handsets (used in Japan). Alternative methods can also include the use of third parties such as other charities and organisations.

This guidance explains which duties trustees need to be mindful of, and sets out some of the risk management factors they should consider if they decide to use these methods, together with guidance on the sort of financial controls which may be appropriate to consider in these circumstances. There are a number of practical tools to help charity trustees comply with their duties.

We have also published a [Summary](#) of key messages from this chapter.

1.2 Who should read this guidance?

This chapter is primarily intended for trustees and other relevant people in their charity. Trustees' duties apply when the charity receives, holds, moves or uses money. For some charities there may be a limited number of these transactions, for others there may be tens of thousands. The Charity Commission hope this guidance, particularly the tools, will be of use to smaller and medium sized charities and also to those charities which may need to use methods other than the formal banking system, because of the nature of their activities, the communities they serve or the location of their operations.

The commission recognises that smaller charities will not usually have access to the financial infrastructure, resources and capabilities that large organisations may have, such as an internal audit team or forensic accountancy skills. Trustees of smaller charities should use their judgement and their knowledge of their own charities to adapt procedures according to the level of risk to their charity, taking into account the cost and burden involved.

The guidance may also be useful to a charity's professional or other advisers who provide advice on what measures and controls a charity needs to have in place. A charity's partners, intermediaries and providers of financial services may find it helpful to know what the trustees' responsibilities are under charity law, so they understand what a charity may be asking of them and any requirements they have.

1.3 Must and should – what they mean

In this guidance:

- 'must' means something is a legal or regulatory requirement or duty that trustees must comply with
- 'should' means something is good practice that the commission expects trustees to follow and apply to their charity

Following the good practice specified in this guidance will help you to run your charity effectively, avoid difficulties and comply with your legal duties. Charities vary in terms of their size and activities. Consider and decide how best to apply this good practice to your charity's circumstances. The commission expects you to be able to explain and justify your approach, particularly if you decide not to follow good practice in this guidance.

In some cases you will be unable to comply with your legal duties if you don't follow the good practice. For example:

Your legal duty	It's vital that you
Act in your charity's best interests	Deal with conflicts of interest
Manage your charity's resources responsibly	Implement appropriate financial controls Manage risks
Act with reasonable care and skill	Take appropriate advice when you need to, for example when buying or selling land, or investing (in some cases this is a legal requirement)

Trustees who act in breach of their legal duties can be held responsible for consequences that flow from such a breach and for any loss the charity incurs as a result. When the commission looks into cases of potential breach of trust or duty or other misconduct or mismanagement, it may take account of evidence that trustees have exposed the charity, its assets or its beneficiaries to harm or undue risk by not following good practice.

1.4 Using this guidance

In answer to any anticipated questions, there are **short answers** and explanations **in more detail**. There are links to other websites, documents, further information and useful tools for charities. Links are marked in blue.

Other relevant commission guidance includes:

[Internal financial controls for charities \(CC8\)](#)

[Chapter 2: Due diligence, monitoring and verifying the end use of funds](#)

[Charities and risk management \(CC26\)](#)

1.5 Technical terms used

Bacs

[Bacs](#) is a not-for-profit, membership-based, industry body owned by 15 of the leading banks and building societies in the UK and Europe. It is responsible for the schemes behind the clearing and settlement of automated payments in the UK including Direct Debit and Bacs Direct Credit.

Bureau de change

Businesses where customers exchange one currency for another. Bureau de change are Money Service Businesses (see below).

Cash couriers

Persons who physically transport currency on their person or in accompanying luggage, often from one jurisdiction to another.

Financial Action Task Force (FATF)

[FATF](#) is an inter-governmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing. FATF is therefore a 'policy-making body' that works to generate the necessary political will to bring about legislative and regulatory reforms in these areas.

Hawala

A particular type of IVTS (see below). Hawala means 'change' or 'transfer' in Arabic. It is a system that pre-dates formal banking. Its origins are in India and Pakistan and other areas of South Asia. A hawala dealer is known as a 'hawaladar'.

Hawaladars

IVTS agents specialising in dealing with hawala systems of money transfer.

Informal Value Transfer Systems (IVTS)

A method of moving money, generally to another country, usually without it entering the formal banking system. These are operated by IVTS agents. See [Annex A](#) for more detail.

Intermediaries

In this guidance these are defined as organisations, used by charities to move funds, which are outside the formal banking system. In particular these are:

- money service businesses (including bureaux de change and IVTS agents)
- payment services
- other charities or NGOs
- cash couriers

See [Annex A](#) for more detailed explanation.

Money Service Businesses/Bureaux (MSBs)

Businesses that exchange currencies transmit money or cash cheques for their customers. Money laundering regulations require MSBs in the UK to register with [HMRC](#). See [Annex A](#) for more detail.

Non-governmental organisation (NGO)

A not-for-profit organisation which is based on a set of social values, is independent of government and works for the benefit of other people or a class of people. NGOs may or may not also be charities.

Payment services

These are services, provided by financial firms, which allow a person or organisation to transfer funds to another person or organisation (or make a payment), usually electronically. They may be internet-based allowing online transactions or may allow payments facilitated by the use of mobile phones. They are subject to [The Payment Services Regulations 2009](#).

Serious incident

A serious incident is an adverse event, whether actual or alleged, which results in or risks significant:

- loss of a charity's money or assets
- damage to a charity's property
- harm to a charity's work, beneficiaries or reputation

If a charity's income is over £25,000, the trustees must, as part of the Annual Return, sign a declaration confirming there were no serious incidents during the previous financial year that should have been reported to the Commission but were not. If incidents did occur, but weren't reported at the time, the trustees should submit these before they file their charity's Annual Return, so they can make the declaration. Until all serious incidents have been reported, the trustees will

not be able to make this declaration, or complete the Annual Return, which is a statutory requirement under section 169 of the Charities Act 2011.

RSI: every time you see this it will alert you to the need to report this as a serious incident to the commission. Detailed guidance on reporting serious incidents is [available](#).

2. Safeguarding charity funds - the basics

1.1 What are trustees' legal duties and responsibilities when holding and moving money?

The short answer

Legal requirement: trustees are under legal duties to safeguard the charity's money and assets and to act prudently. Trustees also have a duty to avoid undertaking activities that may place their funds, assets or reputation at undue risk.

This means that when receiving, holding and moving funds, trustees need to ensure they take proper care to ensure the charity's money is held safely, not placed at undue risk and reaches the intended destination for the purposes intended.

If a charity has to pay for services to receive, hold or move money, then trustees must know how much this is and ensure they take account of all relevant factors when deciding whether this is reasonable and in the best interests of the charity.

In more detail

Legal requirement: as part of trustees' duties to ensure they and their charity comply with the general law and their general duty of care under charity law, trustees must ensure that when they use banking systems they choose only those organisations which are legally entitled to operate and offer such services. In the UK those organisations have to be 'authorised' and are usually authorised and regulated by the [Financial Conduct Authority](#). [[section 3.1](#)]

If alternative systems are used, such as money transfer shops or organisations offering wire or cash transfer services, trustees must also ensure that the charity only uses those which are operating lawfully in the UK, and in other countries where appropriate, and are registered when required to be so by law. Trustees must, as part of the legal duties referred to above, ensure that the charity's money will be held safely in the system they have chosen, and not be placed at undue risk, so that the money reaches its intended destination for the purposes the trustees intended.

There will be some additional risks when using some of these methods. Criminals and others seeking to abuse charities may use weaknesses and vulnerabilities in these methods to take advantage of charities. Trustees will need to take appropriate and reasonable steps to manage these risks. Sometimes, if they cannot properly manage these risks, it may mean that a particular charity cannot in certain circumstances use a particular method. [[section 4.4](#)]

If the charity regularly transfers cash using cash couriers, particularly overseas, trustees need to ensure they exercise particular care. [[section 4.2](#)]

Legal requirement: trustees must act in the best interests of a charity. They must ensure they exercise proper control over the charity's financial affairs and take all reasonable and necessary

steps to ensure there is no misuse of charity funds or assets. In practice this means that all charities must, as a minimum:

- have some form of appropriate internal and financial controls in place to ensure that all their funds are fully accounted for and are spent in a manner that is consistent with the purpose of the charity – what those controls and measures are and what is appropriate will depend on the risks, the activities of the charity, and whether it is using banking or alternative methods or regularly transacting in cash
- keep proper and adequate financial records for both the receipt and use of all funds together with audit trails of decisions made – records of both domestic and international transactions must be sufficiently detailed to verify that funds have been properly transferred and spent as intended and in a manner consistent with the purpose and objectives of the organisation
- give careful consideration to what other practical measures they may need to adopt to ensure that they take reasonable steps to protect the charity's funds and that the trustees meet their legal duties
- deal responsibly with incidents when they occur, including prompt reporting to the relevant authorities, ensuring the charity's funds are secure

2.2 Can trustees apply a risk based approach to their duties?

The short answer

Legal requirement: trustees cannot apply a risk based approach as to which duties apply or they choose to comply with. The legal duties explained above apply to **all** trustees of **all** charities subject to the law of England and Wales, whatever their income, whether registered with the commission or not and whether or not they are based or operate internationally.

However, what these duties mean in practice for individual charities, and the controls and measures that need to be in place, will depend on the circumstances and will vary from charity to charity. Trustees can apply a [risk based approach](#) to this.

In more detail

What an individual charity and its trustees must or should do in their charity, and what is a reasonable and proportionate approach to adopt when taking action to comply with those legal duties, will depend on a range of factors.

Legal requirement: as part of their duty of care to the charity, trustees must also ensure that they use reasonable care and skill when making decisions about financial procedures including movement and use of money. The greater the risks, the more important it is that trustees can show that they have discharged their duty of care.

Using alternative systems and methods outside the formal banking system will give rise to certain risks. Trustees' duties of care are likely to be higher in circumstances where the risks are greatest, for example where significant sums of money are involved, where these methods are intended to be used frequently, and where the charity's money comes from public sources (for example through a public appeal or public grant funding or from another charity). In such circumstances, the trustees will be expected to do more to comply with their duties, even taking into account the volume of transactions and the cost of administration this may involve.

Trustees should consider getting external professional advice on matters where there may be material risk to the charity or where they are concerned they may be in breach of their duties.

What is appropriate and proportionate in each case will depend on the nature of the risk, its potential impact and its likelihood of occurring. It is important that trustees are able to show that the decisions and action they have taken (or not taken) is reasonable in the light of those risks and actions.

For more information and advice on what a Risk Based Approach means in practice see [chapter 2 of the toolkit](#) and [Charities and risk management \(CC26\)](#).

2.3 Can charities use money systems other than banks to hold and transfer funds?

The short answer

It is the commission's view that all charities need to have access to and use the formal, regulated banking system wherever possible. However, in principle charities can use other methods, such as money transfer companies or transactions in cash, but they will usually need to take additional steps to ensure that the charity's money is safe.

In more detail

Alternative methods include the use of cash couriers, the use of money transfer facilities to transfer funds through Money Service Businesses (in the high street or via the internet), 'hawala' banking (used in Muslim communities), 'chiti' banking (used in Hindu communities), 'chop-shop' (used in Chinese communities), 'fei-ch'ien' and 'hui kun' (used in South East Asia), the transfer of funds facilitated by mobile telephones (used in some African countries), and the use of multi-function handsets (used in Japan). Alternative methods can also include the use of third parties such as other charities and organisations.

Legal requirement: it is the commission's view that all charities need to have access to, and use, the formal, regulated banking system. Charity trustees have a legal duty to protect their charity's funds and ensure that they are properly and legitimately used for the charity's purposes. It is difficult to see, where regulated banking services are available, how trustees could show they discharged this duty if they did not use them in order to ensure that the charity's funds were properly secured. Trustees should therefore use banking arrangements to receive, hold and move charity funds where they are available. However, for example, there may be exceptional or particular circumstances why formal banking facilities are not available to charities moving funds internationally.

The banking system in the UK is regulated. It is generally recognised to be safe, particularly for moving funds internationally in a transparent way, and it is accepted that any associated risks are manageable and reasonable to take. However, even when using an account with a regulated bank or building society, trustees do need to ensure that appropriate safeguards and controls over its use are in place. These are explained further in [section 3.4](#).

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, the relevant regulatory issues have been considered and addressed by the trustees, 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. These are explained further in sections [4.4](#) and [5.3](#).

2.4 What happens if something goes wrong?

The short answer

To ensure that they meet their legal duties, charity trustees must deal with concerns about any abuse of charity funds responsibly. Where a crime is suspected or a significant loss to the charity takes place, this should be reported.

In more detail

If a problem does arise with the use or movement of charity funds or with a bank, agent or other intermediary used by the charity, trustees must deal with concerns about any abuse of charity funds responsibly in order to ensure that they meet their legal duties.

If trustees suspect a crime has been committed or the charity's money is being used for illegal purposes, they must report their concerns and the suspicious activities to the police and appropriate authorities as soon as possible and ensure that they obtain a crime reference number.

RSI: Charity trustees need to [report serious incidents](#) to the Charity Commission. This includes any actual or suspected serious incidents of fraud, theft, other financial crimes or other significant loss to the charity. The commission's [Guidance for trustees](#) explains what incidents are serious and should be reported, how trustees can do this and what information it needs.

For further guidance about what to do about suspected financial crime, see [Chapter 3: Fraud and financial crime](#).

If the problem arises because of failure on the part of trustees to take reasonable and proper steps to protect the charity and its assets, such as not having suitable and proper financial controls in place or not acting responsibly when dealing with incidents of non-compliance and abuse, this may be regarded as evidence of misconduct and/or mismanagement in the administration of the charity.

Whatever a charity's size and circumstances, the trustees need to be able to explain what they did (or did not do) and show that this was reasonable in the particular circumstances.

3. The banking system

3.1 Do charities need to have banking facilities?

The short answer

Legal requirement: yes, charity trustees have a legal duty to protect their charity's funds and ensure that they are properly and legitimately used for the charity's purposes. It is difficult to see, where regulated banking services are available, how trustees could show they discharged this duty if they did not use them in order to ensure the charity's funds were secure.

In more detail

Good financial stewardship of the charity includes the appropriate use of a bank account, where access to the money is restricted and its movement can be easily traced. This is the easiest way for trustees to demonstrate that they are discharging their duties and is an essential element of good governance and financial management.

In order to operate effectively and transparently when delivering aid or undertaking charitable work, every charity needs access to banking facilities. If a charity does not have a bank account, then the steps that the trustees must take to safeguard the cash, and ensure that proper traceable records of income and expenditure are held, are likely to place a disproportionate burden on the trustees.

The banking system in the UK is regulated and is generally accepted to be safe, particularly for moving funds internationally in a transparent way, and the associated risks are 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 and, wherever they are available, trustees should use them.

In the context of the UK 'authorised' means authorised – and therefore regulated - by the [Financial Conduct Authority \('FCA'\)](#). The fact that these organisations are regulated provides trustees with some level of reassurance of the organisation's legitimacy and that it is supervised to ensure funds are secure. Authorised banks also participate in the [Financial Services Compensation Scheme](#), which safeguards the first £85,000 of most customers' deposits, and the first £50,000 of investments, in the unlikely event of the failure of an authorised bank.

The commission would have serious concerns if a charity were not able to operate because of a lack of banking services. If these services are declined or withdrawn from a charity, harm could result to the effective delivery of its charitable work and its ability to operate transparently. It could also have an adverse impact on public trust and confidence in that charity and in charities generally. It may also have a wider impact on the community that the charity works with or represents.

3.2 Which banks can charities choose to open accounts with?

The short answer

It is for the charity to decide which bank or other financial organisation it chooses to hold its account with.

However, trustees should, in acting in the best interests of the charity, ensure that the banking arrangements they choose for their charity meet the charity's needs and help it to deliver activities and services effectively.

In more detail

Many banks operate accounts that are specifically designed for charities. Charity deposit accounts, for example, can pay gross interest, and in some cases the bank charges applied for the administration of a designated charity account will be lower than those for ordinary business accounts.

Charities may have a policy which sets out how many accounts it should have or where its accounts are to be held. This should be checked by the trustees to ensure they are acting in compliance with the charity's policy.

Charities, like other organisations, may use electronic banking. However, in order to maintain the security of bank accounts, there are a number of basic control procedures that trustees should ensure are in place. The fundamental internal financial control the commission recommends' is that charities banking online, use a dual authorisation system. Other controls about internet banking are set out in greater detail in [Internal financial controls for charities \(CC8\)](#).

Charities which operate wholly or partly overseas should consider whether they need to use a bank which has branches, or associates, in key countries in which charitable services are to be delivered.

In some cases, a charity may want to, or need to, set up a bank account in another country. Trustees need to ensure they open accounts with legitimate organisations and comply with any local banking regulations or requirements which may apply to them. This can be beneficial if a charity needs to send funds to a self-accounting branch abroad, or to a partner abroad who is administering or overseeing a particular project. Electronic transfer to other partners through banking systems is a useful way, in due diligence terms, of ensuring the partner exists and is legitimate in the other country.

3.3 Can charities have more than one bank account?

The short answer

Yes. It is up to trustees to decide which banks they hold accounts with, and how many accounts they have, provided that they are acting in the best interests of the charity. There are benefits and disadvantages in holding more than one account. Trustees should ensure that their charity has the number and types of accounts which are appropriate to its needs.

In more detail

Most small or medium sized charities operating only in the UK will usually find that one bank account will be sufficient for their needs, but even that will depend on the context of their work and fundraising. For example, institutional donors sometimes make it a condition of funding that the charity must set up a separate account to receive and hold their money.

All bank accounts should be held in the name of the charity and never in the name of individuals. The charity may have a policy about its accounts and this should be checked by trustees to ensure they are acting in compliance with it. Appropriate controls and safeguards should be in place as to their use and access to them. Controls are recommended to help prevent the unauthorised opening or closure of bank accounts and to help ensure the reliability of accounting records for cash.

When deciding whether to have one or more accounts the following questions may be relevant:

- where a charity's account details are in the public domain to facilitate fundraising, should the trustees consider using this as an income-only account for fundraising?
- is a separate account needed to hold any restricted or designated funds?
- is there a need to set up separate accounts for particular direct debits and expenditure on certain projects?
- does having more than one account potentially assist continuity of operations, if for example one account has to close as a result of cybercrime or identity theft?
- does having more than one account make it more difficult to monitor income and expenditure, and create more complicated procedures for reconciliation and reporting?
- does having more than one account improve the charity's financial controls, or cause weaknesses? For example, is having more than one account useful as a way of limiting access to funds by particular staff or can this be done more easily by use of assigned debit and/or credit cards?

Where charities are operating internationally or have complex financial arrangements involving overseas transactions or expenditure, there may be a need to have bank accounts in another

country. If this is the case trustees still need to ensure they have control of these accounts. This may require additional financial reporting and additional risk management procedures.

If charities do operate more than one bank account, in order to discharge their duty to protect charity property and ensure its proper use, the trustees must ensure they know about their existence, how many accounts there are, the account details, who has access to them, and the arrangements for monitoring and checking their use. Trustees must also ensure that they receive regular reporting information about expenditure and income to ensure they maintain proper oversight of the charity's finances.

3.4 What controls do trustees need to have in place when operating a charity's bank accounts?

The short answer

There are a number of controls which trustees should ensure are in place in order to protect funds held in bank accounts, as set out in more detail below.

Legal requirement: in order to ensure that they fulfil their duty of care in respect of their charity and the application of its funds, trustees must ensure that they exercise full supervisory control over their charity's bank accounts.

Trustees must not allow third parties to open and have unsupervised access to bank accounts in the charity's name.

In more detail

Financial controls over cash held in bank and building society current accounts and deposit accounts are important as they provide assurance about the security of cash holdings, and ensure that the amount of cash held, at any one point in time, can be identified. Although accounts held with banks and building societies authorised by the [Financial Conduct Authority](#) are protected in the event of their failure by the [Financial Services Compensation Scheme](#) for deposits of up to £85,000 and investments up to £50,000, internal controls provide security in areas not covered by the Compensation Scheme such as inappropriate use of bank accounts.

Trustees must ensure that they exercise full supervisory control over their charity's bank accounts. In practice, this means the trustees of smaller charities will need to do so personally. For larger charities, they may need to delegate day to day supervision and control to a member of staff. If they do this, they need to ensure that the member of staff is properly supervised; that the trustees receive regular reports; and that arrangements are in place for them to inspect banking records. More general guidance on delegation by trustees may be found in the commission guidance [The essential trustee: what you need to know \(CC3\)](#)

Legal requirement: trustees must follow any relevant clause in the charity's governing document that specifies who is authorised to sign cheques and authorise expenditure. If there is no provision in the governing document which relates to the operation of bank accounts, the bank mandate must specify at least two trustees as signatories, unless the trustees can reasonably claim that it is necessary for employees to sign cheques to allow the charity to operate. Further guidance on security matters related to a charity's finances, is available in the commission's guidance [Internal financial controls for charities \(CC8\)](#).

Trustees must consider what other practical controls need to be in place in order to protect funds held in bank accounts, in particular with respect to payments by cheques, debit cards, credit cards,

charge cards, direct debits, standing orders and Bacs direct credit; and in relation to electronic banking.

We recommend, for example, that:

- bank reconciliations are prepared at least monthly for all accounts, reviewed by a second person and any discrepancies resolved
- a list of all its bank accounts is kept and reviewed for dormant accounts which should be closed
- the opening or closing of accounts should either be authorised by the whole trustee body, or if delegated, the trustees should be informed of changes
- third parties should not be allowed to open bank accounts in the charity's name, or use the charity's bank account to receive or transfer money
- the costs and benefits of the current and deposit accounts held are regularly reviewed to ensure bank charges and/or rate of interest are competitive and that the credit rating of the institution is acceptable
- for internet banking, a dual authorisation system is used

[Tool 1](#) provides practical advice on the operation of bank accounts.

Individuals who are unconnected to a charity must not be given signatory rights to the charity's bank accounts. It would be a breach of trustees' duty of care if they allowed a third party to access the charity property as they would be unable to safeguard its application for the purposes of the charity.

It should not generally be possible for third parties to open up bank accounts in the name of a charity, as banks would normally require proof of the account being opened by individuals authorised by the charity. However, charities should in any event not allow the opening of any account in the name of a charity, or an account which receives their charitable funds, if it is owned or controlled by a third party. Where, for example, funds are raised for the charity by third parties, they should be deposited in accounts which are in the charity's name and controlled by the charity.

3.5 Will having a bank account eliminate all risks?

The short answer

Legal requirement: charity trustees have a legal duty to protect their charity's funds and to act in the best interests of the charity. In order to discharge these legal duties trustees need to consider what banking services the charity requires, and the appropriate and proportionate level of checks and balances that need to be built in.

The security of a financial institution can never be absolutely guaranteed, but the benefits and safeguards provided by an established and regulated banking system far outweigh any risks.

In more detail

In recent years financial institutions of all kinds have gone through a period of considerable uncertainty. It is often difficult, if not impossible, to guarantee returns on cash investments, and trustees should, of course, be guided by advice from a competent and appropriately qualified and experienced person; but the commission's experience is that significant losses of funds from general cash resources held by charities in bank accounts are usually caused by a failure to establish and implement suitable internal controls over the administration of the bank accounts rather than any inherent problem with the banks or banking services themselves.

Charities do need to have access to proper banking facilities. Having a bank account is an integral and indispensable element of a prudent and responsible financial management system.

Generally speaking, modern banking systems are highly sophisticated and reliable, and many of a charity's routine, day to day financial transactions can be set up to operate automatically – for example, standing orders and direct debits, salary payments and inter-account transfers. The banking system in the UK is regulated and banks are under a number of duties to safeguard their customers' money, including against fraud and money laundering. They often honour a loss where a customer has been a victim, providing they have acted honestly, reasonably and quickly to report concerns. However, this does not mean that the banking system is entirely risk-free, and that trustees can simply assume that charity 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 are as vulnerable as any other organisations to fraudulent activity [see [chapter 3](#)].

Our guidance [Internal financial controls for charities \(CC8\)](#) includes advice on what financial controls trustees should put in place for accounts held in banks and building societies ([5.4](#)). It also includes a section (5.4) on the use by charities of electronic banking. Charities may wish to consider the following additional guidance on the [operation of bank accounts](#).

3.6 What do trustees need to consider when operating in and exchanging sterling for other currencies?

The short answer

Charities may use their own banks, or registered Money Service Businesses (including bureaux de change), in order to exchange sterling for other currencies (or vice versa).

In order to discharge their legal duties, trustees need to ensure they consider a range of factors when using these services, including checking that the institutions they use are legitimate and authorised to operate or are registered with the appropriate agency; the cost of making the transactions and exchange rate risks. Trustees should ensure, as with any other financial transaction, that there are proper financial controls in respect of these.

In more detail

Charities that operate internationally or need to transact internationally may need to transfer and use money in different currencies. The need to exchange money can present risks to charities and trustees need to consider a range of factors when they need to deal with this situation.

Regulation – trustees should ensure that the institutions they use are authorised to operate or are registered with the appropriate agency. Banks and building societies are regulated by the FCA; Money Service Businesses including bureaux de change are required to be registered with HMRC. Payment services are subject to Payment Services Regulations 2017.

Cost – trustees should try to get the best possible price for currency exchange and transfer services. For charities which send considerable sums out of the UK it may be worth carrying out processes involving price comparison or even competitive tendering in order to identify which provider can provide the best deal. There may be cost benefits in retaining money in a foreign currency, for example operating a dollar account.

Charities operating internationally may need to transfer funds using sterling or dollar accounts, and/or convert funds to the local currency. Conversion rates can fluctuate considerably, sometimes from one hour to the next, and most banks will levy a charge for exchange and transfer services.

There may be extra charges for transfers to certain countries and for quick transfers. For small amounts, exchange and transfer costs may be relatively modest in absolute terms but represent a significant proportion of the sum being sent.

Many charities operating internationally require 'soft' currencies. These are currencies that are traded in small volumes compared to 'hard' currencies such as the US dollar, the Euro, the Yen and Sterling. Most soft currency purchases are made on a 'spot rate' basis – that is, a cash price per unit of currency for immediate delivery. Purchases of this kind rarely achieve the exchange rates available to larger organisations and may take longer to arrange.

As there is less possibility of achieving competitive rates for smaller transactions, charities operating in the same geographical region might consider the possibility of collaborating with other charities or NGOs so that they can exert some combined purchasing power to secure better rates. Where this is done it may be advisable to have agreements or memoranda of understanding between the parties.

In addition, banks are now using IBAN or International Bank Account Numbers and SWIFTBIC (Bank Identification Codes). By using these it may be possible to reduce charges when receiving international payments in Euros.

Financial controls – trustees should ensure that:

- these transactions are properly recorded and documented with the use of receipts and other records
- there has been appropriate authorisation of the transaction in accordance with the charity's procedures and policies
- there is regular budget monitoring, including a review of foreign exchange gains and losses
- this analysis has been factored in when considering and planning future project activities

3.7 What issues do trustees need to be aware of when the charity regularly receives donations from, or makes payments to, sources outside the UK?

The short answer

Depending on the circumstances, and applying the charity's risk management processes, trustees will need to take care, and may need to take extra steps in identifying, verifying, and handling donations received from sources outside the UK; and in applying money outside the UK.

In more detail

In general, donations to a charity from sources within the UK are likely to be identified and verified by regulated banks, particularly when received as a cheque payment, through the increased use of direct debit donations or through electronic transfer payments.

This will not necessarily be the case for some sources from outside the UK where regulated systems and laws will be different.

Whilst trustees can accept anonymous donations, trustees should be able to identify and be assured of substantial donations. Good due diligence helps assess the risks, ensures it is appropriate to accept the money and gives assurance the donation is not from any illegal or inappropriate source. To discharge their duty of care, trustees must ensure that appropriate due

diligence has been carried out on donors, and consider the particular circumstances of donations from overseas, asking some key questions as set out in [tool 2](#).

Further advice on trustees' due diligence obligations on donors and what to do if they receive a suspicious donation is contained in chapter 2 of the compliance toolkit, in respect of the ['Know your donor'](#) principle.

There are also additional issues to consider when moving or applying money overseas. If a charity, as part of its work, is moving money to organisations overseas, including charities or NGOs, then it should try to do so by way of electronic bank transfer to a bank account held in the name of the organisation. Payments will usually go through international bank clearing systems.

However, in some countries banking services will not be common, where for example a relatively small proportion of people have bank accounts. Business may be conducted in cash or using alternative systems. In some countries, businesses and organisations may have bank accounts, but individuals may not. This may impact on a charity's ability to transfer money to that country for use there, and/or it may affect the charity's ability to fund activities or give aid to beneficiaries.

Even if a country does have banking services, the regulation and reliability of those services will differ from country to country. In some countries, they will be subject to similar regulatory requirements as in the UK; in other countries, the rules and requirements may be more strict or more relaxed. There may be practical issues, for example, it may be a requirement that a resident in the country must operate and hold access to the account, or the charity must be separately registered as a charity and/or NGO in that country to have an account. These factors need to be taken into account by trustees of charities, and in some cases additional safeguards such as specific transaction monitoring, to ensure the money has reached its intended destination, may be required.

The Finance Act 2010 states that charities' expenditure overseas could be considered non-charitable and therefore liable for tax if organisations do not take the steps HMRC considers are reasonable to ensure that the funds were used for charitable purposes. Charities must provide evidence that reasonable steps have been taken to establish that donations to offshore recipients would be, and have been, spent charitably to the satisfaction of an officer of HMRC. If a charity cannot provide evidence that it took the necessary steps, the expenditure may be deemed non-charitable and tax exemptions would be restricted accordingly.

4. Using and transacting in cash

4.1 Is it acceptable for charities to transfer money, and make payments, in cash?

The short answer

Yes, but payments in cash should be kept to a minimum due to the greater risk that handling cash presents, and difficulties that can arise in establishing clarity and control over significant cash transactions.

For more significant or regular amounts trustees need to be sure this is justified in particular or exceptional circumstances; and that consideration has been given to appropriate controls and the regulatory framework in the UK and elsewhere.

In more detail

Charities should be wary of receiving large or unexpected donations of cash other than through their own or publicly organised fundraising activities, and should take additional steps to assure themselves of the provenance of those funds. See [chapter 2](#), in respect of the '[Know your donor](#)' principle.

As to making payments in cash, given the safeguards that are already in place, charities should use the banking system where possible. However, where a charity needs to make payments in cash the commission recommend that:

- cash payments are for small amounts only
- cash should be paid out of a petty cash float specifically kept for such payments, and not from incoming cash
- details of payments should be entered in a petty cash book
- supporting documentation for the cash payment should be authorised by someone other than the person who maintains the petty cash or the person making the payment
- the balance of petty cash in hand, and the records, should be kept securely
- regular spot checks of the petty cash float should be made by an authorised person independent of the person who maintains the petty cash

Similar considerations apply to the use of cards which are preloaded with cash where cash withdrawals are made by using a PIN at a cash point or similar facility.

If larger payments in cash need to be made, trustees need to be able to demonstrate that there are justifiable reasons for any decisions to make physical cash transfers, bearing in mind their legal duty to protect their charity's funds.

If formal banking facilities are available it is difficult to see how cash transfers, with all their inherent risks, are compatible with that duty. This may be challenging for charities operating in certain countries. There may be some areas that do not allow for any other methods of moving funds, for example in an area of conflict where no formal banking system is operating. The commission strongly advises trustees, their employees, volunteers and agents against moving significant amounts of cash from one location to another on their person or in personal luggage. This could involve an unacceptably high degree of personal and financial risk.

If charities do make payments in cash, trustees must make sure that full records of receipt are made and kept and they take appropriate steps to ensure who they are paying the cash to is legitimate, and that the money will be used as intended if it is for charitable use.

Trustees should be aware that in these circumstances, if any cash were lost to the charity, then the commission would have serious regulatory concerns about their conduct.

4.2 Can charities use cash couriers?

The short answer

There is no rule which states that charities cannot use cash couriers in principle but there are significant risks with them. The trustees need to be aware of the risks and be able to show that they have taken appropriate steps to manage those risks to the charity.

In some cases, the risks may be so high that it means the charity trustees cannot use them without exposing the charity to undue risk and risking their own personal liability.

In more detail

A significant risk for charities that use cash couriers is that this method of transfer is now recognised as a method which has been used to move funds for terrorist purposes. Cash smuggling is also one of the major methods used by terrorist financiers, money launderers and organised criminals to move money in support of their activities. Therefore carrying large sums of cash in person, unless supported by appropriate documentation, is likely to be viewed suspiciously by the Police and customs officers and may be subject to seizure under the Proceeds of Crime Act 2002 – and ultimately lost. Cash can be seized if the Police or a customs officer has reasonable grounds for suspecting that it is the proceeds of crime, or intended for use in unlawful future conduct. If funds are seized there is a civil process for the charity to reclaim those funds in which the charity would need to demonstrate their source and evidence to the court that these are not the proceeds of crime. A failure to do so may mean that the funds are subject to ‘forfeiture’ and ultimately lost to the charity. Even if the money is returned to the charity, the process is likely to have involved potential resource implications in terms of legal representation, staff time and possible reputation damage.

The commission strongly recommends that carrying cash is kept to a minimum and, when considered necessary to do so, that the charity or individual ensures appropriate documentation is given to demonstrate the legitimate source of the funds, and how those funds are to be used for charitable purposes.

[FATF](#) has published [Special Recommendations \(SR\) IX on Terrorist Financing \(TF\)](#). Its Interpretative Note and Best Practices Paper sets out the significant risks in using cash couriers to move funds.

A particular risk is that there is no requirement for cash couriers to be registered as a Money Service Business with HMRC, so extra care in using them is required. Charities should, as with other agents and partners, ensure that appropriate due diligence is carried out on the cash courier, and that they take reasonable steps to safeguard the money. At the very least, the commission would expect trustees to have agreed in writing what is expected from the agent, how much money is being carried and in what currency, when it is to arrive by, and who it is to be paid to and how at the end destination. This should be in place and agreed before the money is handed over.

4.3 If a charity needs to move cash outside the UK, what safeguards need to be put in place?

The short answer

The commission strongly advises trustees, their employees, volunteers and agents against moving significant amounts of cash from one location to another on their person or in personal luggage.

Legal requirement: however, if they do, trustees must ensure the charity complies with the legal requirement to declare cash to HMRC when leaving or entering the UK, currently above a threshold of 10,000 euros. They may do so [online](#) as well as at the port.

Failure to declare or account for the money may lead to seizure of the cash at the port or airport of departure by the UK Border Agency.

In more detail

The commission strongly recommends that carrying moving cash outside of the UK is kept to a minimum. Where any cash is carried, there must be adequate levels of financial controls [D4]. There should also be a proper assessment of any risks to the personal safety of the people

carrying the cash. The commission's view is that trustees of a charity should always consider themselves responsible for cash movements, and should formally authorise its staff or agents carrying large sums of cash out of the country on charity business, and provide formal written authorisation to take with them.

There are particular legal requirements for anyone to declare cash to HMRC when leaving or entering the UK, currently above a threshold of 10,000 euros. Where charities do move cash physically out of the UK using charity personnel or agents, then trustees must ensure they comply with the legal requirement to declare this.

Details of how to declare to [HMRC](#) can be found on their website.

Trustees also need to be aware of any particular legal requirements that may be in place when taking cash into the destination country. Advice should be taken depending on the country. [The Foreign and Commonwealth Office](#), gives advice on travel to particular countries, may be a useful starting point. Advice may be sought from other charities working in similar regions.

Trustees must ensure that if cash is moved outside the UK that this is supported by appropriate documentation that shows the source of the funds and demonstrates that these will be used for charitable purposes. Any failure to do so may lead to seizure of the funds by the UK Visas and Immigration if they have reasonable grounds for suspecting that these are the proceeds of crime, or intended for use in unlawful future conduct.

If funds are seized there is a civil process for the charity to reclaim those funds in which the charity would need to demonstrate their source and evidence to the court that these are not the proceeds of crime. A failure to do so may mean that the funds are subject to 'forfeiture' and ultimately lost to the charity. Even if the money is returned to the charity, the process is likely to have involved potential resource implications in terms of legal representation, staff time and possible reputation damage.

Even if the money is returned to the charity, the process is likely to have involved potential resource implications in terms of legal representation, staff time and possible reputation damage.

4.4 What controls do trustees need when making physical cash transfers?

The short answer

If there are reasons why neither formal banking nor the use of alternative regulated transfer arrangements are feasible methods for moving funds, and physical cash transfer is therefore to be used, trustees must take particular care in establishing sound and effective financial controls and assurance procedures, and in ensuring that decisions are recorded, particularly where significant amounts are involved.

In more detail

The following sets out some practical advice and tips for trustees to think about when having to deal in or use cash, to ensure that money is kept safe and also to help demonstrate that trustees have discharged their duty of care. Financial controls in respect of physical cash transfers could include:

- where significant amounts of cash are being transferred, trustees need to ensure that full records are kept of their decision to allow this, making clear why it is in the interest of the charity to do so and what steps will be taken to ensure the money is safely transferred and reaches its destination

- records must be kept of how much cash is being taken – and in which currency - and there should be a detailed breakdown of what it is intended to be used for
- the breakdown should be prepared by someone independent i.e. not the person or persons actually carrying the cash
- any currency and commission charges should be fully documented
- the cash should be signed for by the person or persons actually carrying the cash
- on arrival the cash should be stored in a safe if possible
- there should be a proportionate policy on what should be done with any spare (unused) cash, to include circumstances where particular currencies cannot be taken out of the country
- on return a detailed breakdown of expenditure should be provided with receipts as far as possible, accompanied by a self-declaration of how funds were expended by the person responsible for taking the cash, or more than one such declaration if more than one person is travelling
- consideration should be given to the provision of emergency funds for the travellers
- where cash couriers are used, as opposed to charity volunteers or staff, the above controls should be used where relevant, although trustees need to consider whether additional controls and precautions should be introduced

5. Safeguarding charity funds - the use of intermediaries to transfer funds

5.1 What are intermediaries and can charities use them to hold and transfer funds?

The short answer

An intermediary in this context is simply a third party such as a Money Service Business or another charity or NGO which may be used to hold or transfer funds to a particular region and pay over on the charity's behalf. Intermediaries include organisations which use transfer systems outside the formal banking system (known as Informal Value Transfer Systems or IVTS).

Trustees should where possible use the charity's banking arrangements to receive, hold and move funds, unless there are exceptional or particular circumstances. For example, some charities work in environments where the use of methods outside formal banking is common. In such cases the commission recognise that charities may need to use these methods if banking facilities are not available. They are, however, more inherently risky than formal banking methods and, therefore, trustees need to ensure that these risks are mitigated and that appropriate safeguards are in place.

If someone runs a Money Service Business it is their responsibility to register with HM Revenue and Customs (HMRC) unless they are already supervised by the Financial Conduct Authority (FCA) for the purposes of the Money Laundering Regulations. They must not act as a Money Service Business until they are either registered with HMRC or supervised by the FCA. In practice, most Money Service Businesses are registered with HMRC and you can check this using their [online register](#).

In more detail

There are several methods of moving funds other than through formal banking methods, for example:

- methods collectively referred to as Informal Value Transfer Systems or IVTS

- Money Service Businesses (MSBs) – these include both high street shops and businesses and internet service providers
- businesses authorised to provide ‘Payment services’
- other charities or NGOs
- cash couriers

More detail about these methods, and the relevant regulatory frameworks, are explained in detail in [Annex A](#).

With regard to IVTS, if there are exceptional or particular circumstances why formal banking facilities are not available to charities moving funds internationally, it may be acceptable for charities to use these systems. This will usually be where banking facilities are not available and urgent needs have to be met. However, these methods usually lack the safeguards that exist with traditional 'high street' banking to prevent fraud or to recover funds that have been lost. These methods are likely to be less transparent and require greater resource and effort on the part of the charity to ensure adequate systems are in place to protect the charity, and to ensure proper records are kept to show the legitimate movement and use of charitable funds.

Trustees should ensure that funds transferred by such methods are strictly limited to meeting essential needs where formal banking systems cannot be used and avoid, where practical, making subsequent transfers until receipt of a previous transfer can be confirmed.

Further related information may be found in [Internal financial controls for charities \(CC8\)](#), in particular section [5.5 ‘Can charities use non-traditional banking methods?’](#), which sets out what documentation of the transaction should be put in place to manage some of the risks and ensure a proper audit trail is kept.

More generally, trustees should only use intermediaries if the risks have been properly considered by the charity and appropriate risk management procedures and safeguards are in place. This includes carrying out appropriate and proper due diligence to ensure the person or entity to which the charity is sending money is known and trustworthy, and ensuring all the relevant regulatory issues have been considered and addressed by the trustees. In order to ensure that the charity’s funds are properly safeguarded and applied in furtherance of the charity’s purposes, trustees must be satisfied, and if necessary be able to show, that:

- their use of intermediaries is in the best interests of the charity
- they have considered the risks and conducted effective risk management to assess these risks (as well as the benefits and advantages) and they are satisfied that proper and adequate safeguards and controls are in place to protect the charity’s funds
- particular consideration has been given to practical aspects of risk management and the general political and social context of the transactions
- all the relevant regulatory issues have been considered and addressed

More detail on the risk management issues associated with the use of intermediaries is provided in the next section.

5.2 What risk management issues do trustees need to consider when using intermediaries?

The short answer

If a charity wants to use intermediaries to transfer the charity’s funds, the trustees need to assess and manage the associated risks. This will usually include practical consideration of the speed,

security and cost of the transfer; awareness of the relevant regulatory issues; and the need to take account of the general international, political and social context of the transactions.

In order to discharge their legal duty to act in the best interests of the charity and safeguard charity property, trustees must ensure they put proper systems and controls in place and keep appropriate records to be able to monitor and demonstrate the legitimate movement and use of charitable funds.

In more detail

In view of the range of options now available for moving funds using intermediaries, if the formal banking system is not available, it is important that trustees consider the full range of options and make decisions based on a proper assessment of the benefits and risks associated with particular methods.

It would also be prudent to seek advice or recommendations from other charities working in similar geographical areas or conditions, from appropriate regulators, or from professional people who have relevant experience in this field. Trustees should shop around and compare the costs of various service providers including the arrangements of their own bank.

In conducting risk assessments on these types of transactions, trustees will usually need to take account of questions in the following areas:

Speed - how urgent is the proposed transaction? Would it be acceptable to allow the transaction to go through the formal banking system, possibly taking a little more time, or is there a pressing need to transfer funds through intermediaries where that is quicker?

Cost – whilst trustees should always be mindful of the cost of transactions, this is not the overriding consideration. Some intermediaries may well offer cheaper alternatives than formal banking services and it would be acceptable for trustees to choose this option provided that they were satisfied with the overall safety and security of the proposed arrangements.

Security – this is a fundamental issue for trustees who should be satisfied, through their risk management arrangements, that the proposed transaction is not putting charitable funds at any undue risk.

Financial controls – are the charity's financial controls robust enough for the use of these methods or are additional safeguards required for a particular transaction? [See 5.3.](#)

Regulation in the UK – the trustees must be satisfied, through appropriate checks of the registered or other status of service providers, that they are regulated, whether it be through the FCA, HMRC, or some other appropriate body.

As all Money Service Businesses in the UK must be registered with HMRC, charities must only use registered ones. MSBs which operate without registering with HMRC may be subject to penalties or a criminal prosecution. Therefore, using unregistered MSBs is an unacceptable risk for charities. Trustees can check which MSBs are registered with HMRC. The register of MSBs may be found on the [Supervised Business Register](#).

Informal Value Transfer Systems (IVTS) agents – which are also Money Service Businesses because they transmit money – are required to be registered with HMRC, and trustees must ensure that any agents they use are so registered.

In the event that charities use services outside the scope of formal banking or MSBs to transfer money – such as internet-based agents or operators offering payment services using mobile phones – trustees should ensure that they are registered with the FCA further to the Payment

Services Regulations 2009. The FCA maintains a register of Payment Services Firms. Advice about accessing the register, and details of a consumer helpline, may be found on the [Financial Services Register](#). Annex A provides more detail on these types of services.

Regulation overseas - Trustees should consider the legality of transactions, including IVTS transactions, in the destination countries for transferred funds, and as far as possible be aware of the local laws affecting these transactions. If, for example, the IVTS agents in the destination country are required to be registered, they should only use agents that are so registered. If there is no such requirement, trustees need to consider how they can establish the credentials of an agent and take this factor into account in their decision making and risk management processes.

Political and social conditions in the destination country – charities should consider the local or regional conditions of the destination country in their risk management, for example the general security of the country and its financial sector.

The international context - the very nature of IVTS makes them susceptible to money laundering and terrorist financing. In this context trustees need to be aware of the international backdrop to these issues, in particular the Financial Action Task Force's (FATF's) [Special Recommendation VI Alternative Remittance](#) which focuses on informal money and value transfer systems, and recommends that countries should:

- require licensing or registration of persons or legal entities providing money transfer services, including through informal systems
- ensure that money transfer systems, including informal systems, are subject to FATF's [40 recommendations](#) and [nine special recommendations](#)
- be able to impose sanctions on money transfer services, including informal systems that fail to obtain a license/register

5.3 What controls do trustees need when using intermediaries?

The short answer

In principle the appropriate controls in respect of transfers using intermediaries should match as far as possible the financial controls, record keeping and assurance systems associated with formal banking. Trustees will need to consider how the controls associated with the use of intermediaries compare with those for formal banking and ensure that parallel controls are in place before funds are remitted.

Legal requirement: whether transfers are made through formal banking or intermediaries, trustees must monitor such transactions, and get assurance that the funds have reached the right place and are properly applied in order to discharge their duty of care to the charity.

In more detail

Other commission guidance covers issues which trustees should consider when using intermediaries to transfer funds, for example due diligence checks, the meeting of essential needs, and the use of IVTS agents or hawaladars ([Internal Financial controls for charities \(CC8\) – section 5.5](#)).

However, in terms of financial controls, while charity funds are in the hands of an intermediary, the trustees may not be able to exercise and monitor those controls directly. Even so the nature and rigour of financial controls, record keeping and audit trails should be fit for purpose and as comprehensive as possible in the context of these transfer systems.

Trustees should therefore consider financial controls, risk management and assurance procedures, for instance:

- the trustees should be able to demonstrate why using these methods is in the best interests of the charity
- the trustees should be able to demonstrate effective management and conduct when using intermediaries, including proper decision making and the identification and management of any problems
- trustees should document and agree the policy and the circumstances when such methods may be used
- expenditure should be subject to the same authorisation procedures as for bank payments using formal banking
- there is an obligation for charities to keep proper records, so an audit trail must be kept for each transaction in the chain of transactions including:
 - payment vouchers (equivalent to cheques)
 - post transaction documentation (equivalent to bank statements)

providing details of the intermediary's:

- name and address
 - amount and date of payment
 - name of the person making the payment
 - the fee charged
 - the payee
- the trail should show the funds going to the intermediary from a UK bank account and evidence of collection at the final destination
 - transaction records and receipts should be sought from those that business is conducted with and clear accounting records kept of these
 - checks should be carried out to confirm that the funds have been received by ultimate recipient and an accounting record kept, such as an email or other notification
 - subsequent transfers should, where practical, be avoided until receipt of a previous transfer can be confirmed

5.4 Can charities use other charities or NGOs to transfer funds?

The short answer

Charities can use, and work in partnership with, other charities and NGOs. However, it would be unusual to use another charity as a vehicle to simply transfer funds through to another destination. Trustees would need to show this was in the best interests of the charity.

In more detail

If it can be shown this is in the best interests of the charity, perhaps because another charity has already established procedures and safeguards for operating in a particular country with high risks, then this might be acceptable.

Where charities and NGOs are used to help move money safely into other countries, there should be formal agreements in place to ensure the charity and its funds are protected.

If a charity or NGO is used as a conduit to move money in this way, particularly where there may be a charge for such a service, there is a possibility in some circumstances that the organisation which is used as a conduit may fall within the Money Laundering Regulations 2007, and be viewed

as a Money Service Business (MSB). For advice on which organisations need to register as MSBs, see the [HMRC website](#).

In addition, [tool 8](#) provides a checklist of issues which may be helpful to trustees to consider when making transfers using other charities or NGOs.

6. Further information

Key government and regulator websites

[Financial Conduct Authority \(FCA\)](#)

[Financial Services Compensation Scheme](#)

[Foreign and Commonwealth Office](#)

[HM Revenue and Customs \(HMRC\)](#)

[National Crime Agency \(NCA\)](#)

Other relevant websites

[Get Safe Online](#)

[Bank Safe Online](#)

Card Watch, now known as [Financial Fraud Action UK](#)

[The Payments Council](#)

Other relevant articles and sources of information

[Fxcompared.com](#) has information on foreign currency transfers.

[Civil Society article on saving money on foreign exchange procurement](#)

The United States Department of the Treasury, Financial Crimes Enforcement Network, has published a [paper on Informal Value Transfer Systems](#) (2003).

Annex A. Types of intermediary

This Annex sets out

- some of the main ways funds may be transferred other than through the formal banking system
- a brief summary of the regulatory arrangements for the various types of intermediary

Practical advice on the appropriate use of intermediaries by charities, taking into account risk management factors, is covered in [Section 5](#).

Money Service Businesses (MSBs)

The term Money Service Business (MSB) has a special meaning under the Money Laundering Regulations 2007, which came into force on 15 December 2007. MSBs are businesses that exchange currency, transmit money (or any representation of money) or cash third party cheques.

They are one of the types of business, subject to these Regulations, which are required to register with HMRC. For more detailed information see the [HMRC guidance on money laundering](#). To check whether a Money Service Business is legitimate and registered with HMRC for Money Laundering Regulations, trustees should use the HMRC's [Money Service Business Register](#).

Every business that is covered by these Regulations must be supervised by a supervisory authority. If it is not already supervised by a regulator (for example by the [Financial Conduct Authority](#) or one of the many other supervisory bodies, such as the [Law Society](#)), it will need to be separately registered with HMRC.

If an MSB operates without registering with HMRC when it should be registered, it may be subject to penalties or a criminal prosecution.

MSBs also operate overseas and may be subject to local regulation.

Payment services

Some services are outside the scope of formal banking and Money Service Businesses.

These are financial firms which offer payment services which allow a person or organisation to pay another for a product or service, or to transfer funds to another person or organisation, usually electronically. They do not necessarily rely upon the need for bank accounts. They may be internet-based allowing online transactions or may allow payments facilitated by the use of mobile phones or pre-paid cash cards.

Such payment services are subject to the [Payment Services Regulations 2009](#). From 1 November 2009, payment services became subject for the first time to a single, regulatory regime – the Payment Services Regulations 2009 (PSRs). The Financial Conduct Authority (FCA) is the regulator for most aspects of the regime. It maintains a register of Payment Services Firms. Advice about accessing the register, and details of a consumer helpline, may be found on [the Payment Services Firm Search](#). Detailed information may be found on the FCA's publication [The FCA's role under the Payment Services Regulations 2009](#).

It may be noted that banks and building societies, for example, can provide payment services without FCA authorisation or registration, and are not within the scope of the Regulations.

The Regulations create a new class of firms authorised or registered to provide payment services. These firms include internet-based money remitters and certain mobile network operators offering payment services.

'Mobile money transfer' is a way to send money using mobile phones. It is a transfer of money to a recipient in which the funds are deposited into a mobile or 'virtual' wallet, examples including where:

- the donor deposits cash with an agent specialising in such transactions who then sends the funds to the virtual wallet (mobile phone) of the recipient
- the donor uses a mobile phone to transfer funds to an agent who then passes the cash on to the recipient
- there is a mobile phone to mobile phone transaction where the funds are transferred directly between donor and recipient

A well-known example of this type of agent is M-PESA, whose services originated in Kenya but which is now extending its services more widely.

Informal Value Transfer Systems (IVTS)

IVTS are systems for moving funds, or their equivalent value, to a third party in another geographic location, where there may be no formal banking facilities, or limited access to them, without necessarily involving the formal banking system. They are sometimes referred to as 'Alternative Remittance Systems', 'non-traditional banking methods', 'underground banking' and 'black market exchanges'. Some of these systems are centuries old.

These methods include 'hawala' banking (used in Muslim communities), 'chiti' banking (used in Hindu communities), 'chop-shop' (used in Chinese communities), and 'fei-ch'ien' and 'hui kun' (used in South East Asia).

IVTS agents – which are also Money Service Businesses because they transmit money - are required to be registered with HMRC. These can be found on the [Money Services Business Register](#)

IVTS:

- may sometimes be cheaper than traditional banking systems (with lower rates of commission and competitive exchange rates)
- can sometimes be more timely in delivering the funds than the physical delivery of cash
- may provide access to cash in remote regions or areas where banks do not operate
- are systems which may be a better alternative to the transfer of funds in cash

[Annex B](#) shows a particular example of how one such system might work.

Other charities and NGOs

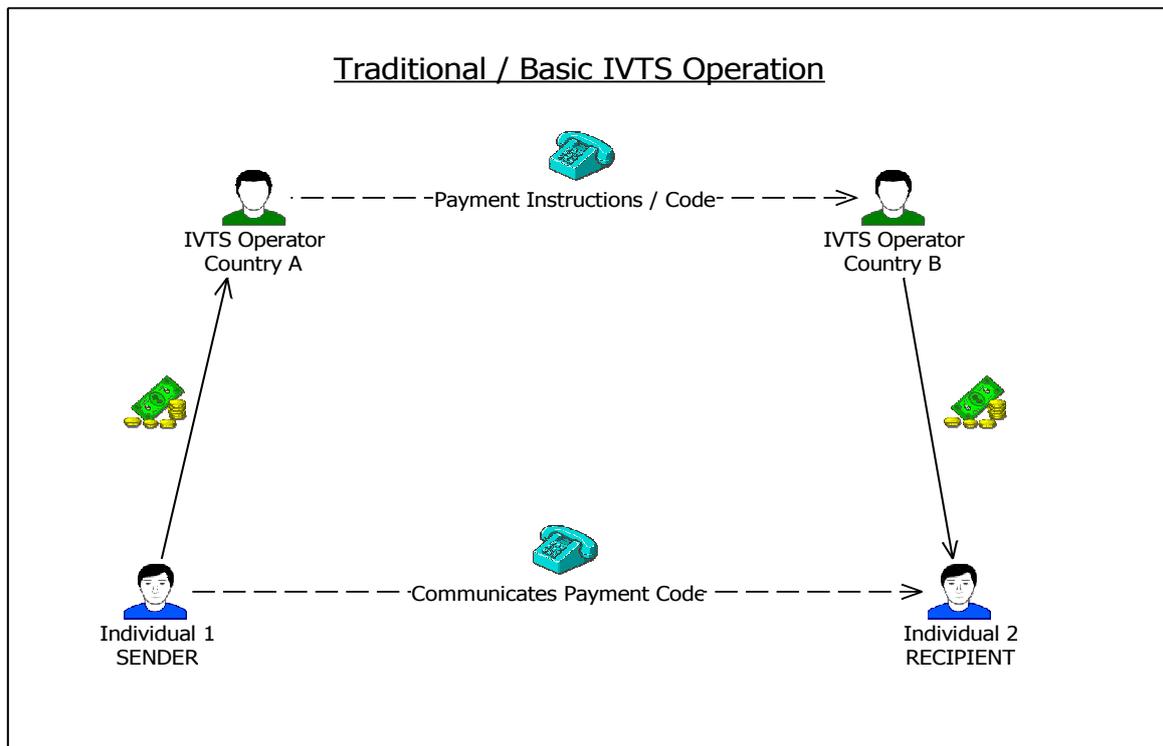
Occasionally charities use third parties, such as other charities or NGOs, to transfer funds internationally. See [5.4](#) for advice in this respect.

Cash couriers

These are persons who physically transport currency on their person or in accompanying luggage, often from one jurisdiction to another, usually charging for the service.

Cash courier activity is not regarded by HMRC as a 'Money Service Business activity'.

Annex B. Informal Value Transfer Systems (IVTS) – how they work



In a **basic** or **traditional IVTS** transaction, four participants are required: a sender of the funds, a recipient of the funds, and IVTS operators in the respective countries of the sender and recipient. The above shows an example of a basic IVTS transfer. The steps are as follows:

1. Individual 1 gives currency to an IVTS operator in Country A.
2. The IVTS operator in Country A provides Individual 1 with a code or other identification mechanism.
3. The IVTS operator in Country A notifies his counterpart in Country B by phone, fax, or e-mail of the transaction amount to pay Individual 2 and the code.
4. Individual 1 contacts the intended recipient, Individual 2, in Country B and provides the code to that person.
5. Individual 2 goes to the IVTS operator in Country B, gives the appropriate code, and picks up the specified funds from the IVTS operator.

The IVTS operators keep an ongoing account of the debits and credits in connection with all their transactions and settle these as part of their business arrangements in due course, rather than cash being remitted to the other at the time of particular transactions.

Some more modern systems may also include banking institutions in the process.

Source: The United States Department of the Treasury, Financial Crimes Enforcement Network, which has published a [paper on Informal Value Transfer Systems](#) (2003)