



# FINANCE POLICY

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## **1. Introduction**

- 1.1 This Policy forms part of the Association's overall system of financial and management control.
- 1.2 Compliance with the Finance Policy is compulsory for all Association staff.
- 1.3 The detailed Financial Procedures set out how this Policy will be implemented.

## **2 Roles and Responsibilities**

### **2.1 Management Committee (MC)**

The MC has ultimate responsibility for the Association's finances and must:

- ensure the solvency of the Association
- safeguard the Association's assets
- ensure resources are used efficiently and effectively in pursuit of the Association's overall objectives
- ensure compliance with the Scottish Housing Regulator's (SHR) Scottish Social Housing Charter and Regulatory Standards.
- ensure that financial control systems are in place and working effectively
- approve the annual budget, Business Plan (BP) and financial statements
- approve each year's accounts prior to publication.
- recommend the appointment of the external auditors at the AGM
- where appropriate, delegate authority to sub-committee and officers with due regard to efficiency and the need to ensure adequate financial control

### **2.2 Performance and Resources Sub-Committee (P&R)**

P&R has responsibility for:

- Reviewing the financial and non-financial performance of the Association against agreed targets and benchmarks
- Ensuring arrangements and resources are in place to enable delivery against agreed organisational targets and objectives, including detailed scrutiny of the proposed annual budget
- Ensuring that appropriate financial monitoring, budgetary controls and reporting arrangements are in place, are used effectively by staff and that corrective actions are taken when needed
- monitoring and controlling the Association's financial activities as outlined in the Terms of Reference in the Standing Orders for Committee Business
- providing assurance to MC on effectiveness of financial and other controls
- considering and scrutinising Quarterly Management Accounts

### **2.3 Audit and Risk Management Sub-Committee (ARM)**

ARM has responsibility for:

- monitoring the internal and external audit functions as outlined in the terms of reference in the Standing Orders for Committee Business
- scrutinising the draft Annual Accounts and ensuring that they are consistent with Generally Accepted Accounting Practice (GAAP)
- making recommendations to MC regarding the selection and appointment, re-appointment or removal of external auditor

#### 2.4 The Chief Executive (CE)

The CE is responsible for the operational management of the Association's affairs and must assist MC in determining its strategic objectives and promote the achievement of these objectives through effective planning, risk management and deployment of the Association's resources.

#### 2.5 The Director of Finance and Asset Management (DFAM)

The DFAM is responsible for ensuring that there is sound financial management and control in place in all areas of the Association's activities. Responsibilities include to:

- scrutinise and monitor the financial implications of all aspects of the Association's activities
- prepare and oversee preparation of financial strategies, policies, procedures and reports for MC
- maintain adequate and proper accounting and control systems to produce accurate accounting records consistent with all regulatory guidance
- ensure preparation of the annual and quarterly accounts for presentation to the Leadership Team, P&R, ARM and MC as applicable.
- negotiate with banks and other financial institutions to provide banking, insurance and loan facilities consistent with the Association's requirements and good Treasury Management practice
- ensure timely preparation of the Association's Annual Accounts and liaise with the Association's external auditors
- ensure Leadership Team and MC are aware of financial risk and proactively advise on appropriate monitoring techniques or strategies for minimising such risks
- lead the annual budget setting process, presenting draft and final proposals
- monitor performance against budget and engage with the budget holders
- effectively manage the procurement of all goods, services and contracts to ensure cost effective purchasing, and greater efficiency

#### 2.6 The Finance Manager (FM)

The FM is responsible for the day to day administration and control of the Association's financial activities. Responsibilities include to:

- assist in long-term financial and business planning
- assist in the preparation of the BP
- prepare the annual capital and revenue budgets
- prepare management accounting reports and present to P&R
- service charge setting

- prepare the Association’s annual accounts and other financial statements and returns which the Association is required to submit to other authorities
- maintain efficient systems of financial control and reporting
- monitor the day to day running of the Association’s finances
- ensure the Association has adequate insurance cover in respect of all its activities
- ensure that the Association’s development projects have the required level of funding at the time it is required, and that all eligible grants for such projects have been claimed and adequate long-term loan finance arranged
- implement and operate the Association’s Treasury Management Policy relating to loans and investments
- advise on taxation issues in the light of guidance issued by the appropriate bodies and relevant legislation, maintaining the Association’s tax records, making payments and submitting returns by their due date as appropriate
- Assist with the assessment of and tendering for new business

## 2.7 Identified Officers

Responsibility for financial management in other areas will be delegated to officers as identified in individual job descriptions. The FM will also supervise and approve the financial systems operating throughout the Association, including the form in which financial records are kept.

## **3 Accounting Policies and Records**

- 3.1 All accounting policies, procedures and records will be determined by the FM in accordance with the requirements of statutory agencies and authorities.
- 3.2 The financial statements are prepared on the historical cost basis of accounting and in accordance with applicable UK accounting standards, including FRS102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”.
- 3.3 The financial statements are prepared for the financial year ending 31 March in the format required by the Statement of Recommended Practice (SORP) for social housing providers and the most recent SHR Determination of Accounting Requirements.
- 3.4 The following books/records will be kept:
- |                      |                             |
|----------------------|-----------------------------|
| • General ledger     | • Payroll records           |
| • Sales ledger       | • Loan register             |
| • Purchase ledger    | • Fixed asset register      |
| • Rent ledger        | • Property register         |
| • Cash book          | • Capital contracts records |
| • Petty cash records | • Register of Disposals     |
- 3.5 The Association is required by law to retain “prime” documents. Records will be retained as follows:

- Sales invoices           6 years
- Purchase invoices       6 years
- Payroll records         6 years
- VAT records             6 years

3.6 For auditing and other purposes, the Association will retain all other financial documents for six years.

3.7 A chart of accounts will be maintained by the FM which will incorporate coding structures for all the books/records above. Codes in the chart of accounts can only be inserted or deleted by the FM. The FM will also be responsible for setting up financial years and rent accounting periods.

#### **4 Segregation of Duties**

4.1 It is recognised that complete segregation of duties cannot be achieved with a limited number of finance staff.

4.2 The following principles should be observed wherever possible:

- Approval of electronic payments should be approved by someone other than the officer setting up the payments.
- Cheques should not be signed by the officer preparing the cheque.
- The receipt of rent or other payments to the Association shall be separate from the recording of the receipt in the accounting records.
- No officer of the Association may take sole responsibility for all stages in the process of ordering, taking receipt of and authorising payment for goods or services, unless for minor amounts or in an emergency situation, and the relevant purchase order has been countersigned.

#### **5 Internal Controls**

5.1 The Internal Audit Policy sets out how MC and ARMSC will ensure the adequacy of the Internal Controls.

5.2 Whenever a matter arises which involves, or is thought to involve, irregularities or fraud concerning cash, stores or other property of the Association, or there is any other suspected irregularity in the exercise of the activities of the Association, the provisions of the Anti Fraud, Bribery & Corruption Policy and Whistleblowing Policy come into effect.

#### **6 External Audit**

6.1 Preparation of the annual accounts will commence in April. Draft accounts will be sent to the external auditor electronically one week before the commencement of the audit. Audit schedules will be prepared in accordance with the auditor's Audit Input Schedule.

6.2 The dates of the audit should be agreed with the auditors in January each year.

- 6.3 External auditors (and internal auditors) have authority to:
- access Association premises at reasonable times
  - access all assets, records, documents and correspondence relating to any financial and other transactions of the Association
  - require and receive such explanations as are necessary concerning any matter under examination
  - require any employee to account for cash, shares or any other Association property under their control
  - access records belonging to third parties, such as contractors, if required
- 6.4 Draft audited accounts are to be considered initially by the ARM and approved by MC at a meeting prior to the AGM.
- 6.5 Final audited accounts are to be received at the AGM. These accounts must be signed and submitted to the SHR, lenders and the FCA by 30 September each year.
- 6.6 The appointment of external auditors will also take place at the AGM and it is the responsibility of MC to make recommendations following advice from ARM.
- 6.7 The primary role of the external audit is to report on the Association's financial statements and to carry out such examination of the statements and underlying records and control systems as are necessary to reach their opinion on:
- whether the financial statements give a true and fair view of the state of the Association's affairs,
  - have been properly prepared in accordance with UK GAAP, and
  - have been prepared in accordance with the Co-operative and Communities Benefit Societies Act 2014, the Housing (Scotland) Act 2010, and the determination of Accounting Requirements 2014.
- Their duties will be in accordance with applicable law and International Standards on Auditing.
- 6.8 Each year ARM will review the effectiveness of the external audit and, provided the auditor's work is of a sufficiently high standard and reasonably priced, should recommend that MC reappoint them. Audit services will be tendered periodically in line with the Procurement Policy.
- 6.9 The Association may from time to time be subject to audit, investigation, scrutiny or inspection by other external bodies such as HM Revenue and Customs or SHR, who also have statutory rights of access.

## **7 Budget Preparation**

- 7.1 The budget is to be prepared in a form agreed by MC, is to be consistent with the objectives of the Association and will form part of the business planning process.

- 7.2 The budget will have separate sections for revenue operations and capital expenditure, and include a cashflow forecast and a projected year-end balance sheet.
- 7.3 Budget preparation will commence in October with input from staff as appropriate. The annual review of rent and service charges will be agreed by MC at its January meeting.
- 7.4 The draft budget is to be reviewed by P&R in February and be approved by MC by the end of March.
- 7.5 Once approved, the budget will be the basis for authority to incur expenditure (per 7.6) and for comparison with actual results.
- 7.6 Authority to incur expenditure within budget will be delegated to relevant sub-committees and officers – details of these authorities can be found in the Scheme of Delegations and in the Financial Procedures.
- 7.7 At the 6 month stage a review of the approved budget is to be carried out and if the out-turn is projected to be significantly different a revised budget is to be presented to MC for approval at its November meeting.

## **8 Budgetary Control**

- 8.1 Budget holders will have access to a real-time budget holders report on revenue and capital budgets which they are expected to monitor on a regular basis.
- 8.2 The DFAM will keep P&R informed about the state of the Association's finances on a quarterly basis, including variations in actual income and expenditure, in the form of quarterly management accounts. A comparison between the Quarter 4 management accounts and the statutory accounts will be presented to MC in July together with the statutory accounts.
- 8.3 MC will receive regular development reports comparing income received with grant planning targets and budgeted expenditure with actual expenditure.
- 8.4 Authority to approve virements up to an agreed percentage and/or amount is specified in the Scheme of Delegations. (Virement is the process whereby overspends of expenditure may be set off against under-spends in related expenses.)
- 8.5 Nothing in this Policy shall prevent an identified officer from incurring expenditure which is essential to meet immediate needs created by an emergency, subject to such action being reported forthwith to P&R and being in line with the Scheme of Delegations.
- 8.6 Where an identified officer proposes a new policy, or any variation of an existing policy or a variation in the means or timescale of implementing an existing policy which may have financial implications and which has not already been dealt with in the BP or budget, the DFAM will consider the effect on the

Association's finances and if necessary submit a report on the subject to MC or P&R as appropriate.

## **9 The Business Plan**

- 9.1 The FM is responsible for preparing the financial content of the BP for approval by MC, and for preparing long-term financial forecasts for at least the period required by the SHR.
- 9.2 Work on the BP will take place between December and March. This work will be closely aligned to the evolving draft budget. The BP should be approved by MC before the end of March.
- 9.3 The financial input to the BP will consist of detailed 3 year projections of income and expenditure, cashflows and year-end balance sheets, and a 30-year summarised financial forecast including cashflow, revenue and balance sheet projections. Financial plans will be consistent with any development programme approved by MC.

## **10 Care & Repair**

- 10.1 The Association has operated as the managing agent for Orkney Care & Repair (OC&R) since 2011. As long as this relationship continues separate accounting systems and records will be maintained by OC&R but will be subject to the Association's financial controls.
- 10.2 The FM is responsible for ensuring that OC&R records meet the Association's needs and that adequate financial controls are in place. A monthly budget report from June onwards is to be prepared for the OC&R Manager.

## **11 Income**

- 11.1 The FM is responsible for ensuring that appropriate procedures are in operation to enable the Association to receive all the income to which it is entitled.
- 11.2 All staff will furnish the FM with details of work done, goods supplied or services rendered and of all other amounts due as may be required to record correctly all sums due to the Association. The procedure for issuing invoices for the recovery of income are outlined in the Financial Procedures.
- 11.3 Rents (and other charges linked to inflation) for the coming year will be determined by the MC once the relevant inflation statistics have been published, and in any case in time for the statutory notice of a rent review to be given.
- 11.4 Service and Factoring charges will be set by the FM at a level which ensures costs are covered and any deficit/surplus brought forward is addressed.
- 11.5 The FM is responsible for ensuring the prompt collection, security and banking without delay, of all income received.



- 11.6 The FM is responsible for ensuring that all grants notified by the Scottish Government and other bodies are received and appropriately recorded in the Association's accounts and that all claims for funds are made timeously.
- 11.7 Wherever possible, the duties of providing information about money due to or from the Association and the recording of these sums should be separated from the duty of collecting or paying them (see Section 4).

## **12 Irrecoverable Income**

- 12.1 Authority to write off irrecoverable income is delegated to officers up to the limits stated in the Scheme of Delegations.
- 12.2 Writing off irrecoverable income above these limits must be approved by MC.

## **13 Stocks and Stores**

- 13.1 The Head of Corporate Governance (HCG), the Development & Properties Manager (DPM) and the OC&R Manager are all responsible for establishing adequate arrangements for the custody and control of stocks and stores within their sections. The systems used for stores accounting in each section must have the approval of the FM.
- 13.2 If the value of a single item of stock exceeds £1,000 then it must be included at the lower of cost or net realisable value on the balance sheet. Where stock is made up of a large number of low value items (eg office stationery or maintenance stores) then the cost of these items may be expensed in the year of purchase.
- 13.3 Managers whose stocks require valuation in the balance sheet must ensure that the stocktaking procedures in place have the approval of the FM and that instructions to appropriate staff are issued in time and in accordance with the Financial Procedures.

## **14 Expenditure**

- 14.1 MC is responsible for all the Association's expenditure. To facilitate the smooth operation of the business, authority to incur expenditure has been delegated as detailed in the Scheme of Delegations. Expenditure outwith these limits require the specific approval of MC.
- 14.2 The ordering of all goods and services (except those made using petty cash, for supplies of public utility services, for periodic payments or for payments under a contract) must be made using an official Association works or purchase order. The Association's Procurement Policy must be adhered to at all times.

- 14.3 Official orders will only be valid if signed by a duly authorised officer (see the Scheme of Delegations) and countersigned by their line manager if over £1,000.
- 14.4 The FM is responsible for making payments to suppliers of goods and services to the Association.

## **15 Petty Cash**

- 15.1 Petty cash will be controlled through the imprest system. Detailed guidance is contained in the Financial Procedures.
- 15.2 Petty cash balances will be reconciled with petty cash records as required but at least on a monthly basis and signed off by a Finance Officer.

## **16 Payment of Invoices**

- 16.1 The procedures for making all payments will be in a form specified by the FM. Payments to suppliers will be made in accordance with the Procurement Policy.
- 16.2 The FM is responsible for deciding the most appropriate method of payment for categories of invoice. Our default method of payment will be by bank transfer via Bankline or direct debit. In exceptional circumstances, we will make payment by cheque or company credit card.
- 16.3 Suppliers will be informed by the budget holder that the Association will only pay on receipt of an invoice.

## **17 Payments to Staff**

- 17.1 The CE is responsible for all payments of salaries and wages to all staff including payments for overtime and extra hours. Day to day management is delegated to the HCG.
- 17.2 The Payroll function will be administered by suitably trained Finance staff under the direct supervision of the FM.
- 17.3 All Association staff will be appointed to the salary scales approved by MC and in accordance with appropriate conditions of service. Payroll payments will be made in accordance with instructions provided to Payroll staff by the HCG. These instructions will include:
- appointments, resignations, dismissals or secondments
  - periods of half or nil pay due to absences from duty for sickness or other reason, apart from approved leave
  - changes in remuneration including normal increments and pay awards
  - information relating to membership or contributions to the pension scheme, including salary exchange arrangements
  - any other relevant payroll information

- 17.4 The FM will be responsible for ensuring the security of all records relating to payroll including those of a statutory nature.
- 17.5 All payments must be made in accordance with the Financial Procedures and comply with HM Revenue and Customs regulations.
- 17.6 MC is responsible for undertaking the role of employer in relation to appropriate pension arrangements for employees; the HCG is responsible for administrative arrangements, day to day pension matters and the FM is responsible for the deduction and payment of contributions.
- 17.7 All claims for payment of subsistence allowances, travelling and incidental expenses must be submitted on the official Expenses Claim form which is approved by their Line Manager.
- 17.8 Expenses claims by members of staff must be certified by their line managers (MC chair or vice-chair in the case of the CE). This certification will be taken to mean that the journeys were authorised, the expenses properly and necessarily incurred and that the allowances are properly payable by the Association.

## **18 Contracts**

- 18.1 Where contracts provide for payment to be made by instalments, the FM will maintain development cashflows showing:
- the state of accounts between the Association and the contractor on each contract together with other related payments e.g. professional fees; and
  - the sources of funding for each contract and the amount of funding drawn down to date
- 18.2 Payments to contractors on account of contracts will be made only on a certificate issued by the consultant appointed for the purpose. Exceptionally, for small contracts below £100,000, payment on account may be made on the authority of the DPM or DFAM subject to the limits set out in the Scheme of Delegations. Such payment must be based on the estimated value of completed works.
- 18.3 Any variation to a contract which has a financial implication will be reported to MC as soon as practicable.
- 18.4 The final certificate of completion of any contract will not be issued until the appropriate consultant appointed for the purpose has produced a copy of the agreed final account to the DPM. Documentary evidence of the decision-making process should be retained in relation to each contract for audit purposes.
- 18.5 The DPM, to the extent they consider it necessary, can examine final accounts for contracts, and will be entitled to make all such enquiries and receive such

information and explanations as may be required to satisfy them as to the accuracy of the accounts.

- 18.6 Claims for contractors and professional consultants in respect of matters clearly within the terms of any existing contract shall be passed to the DPM for financial consideration or, if necessary, to the CE who may seek legal advice regarding the Association's liability before any settlement is made.
- 18.7 Where completion of a contract is delayed beyond the contract period, it will be the responsibility of the DPM to consider damages and, where appropriate, to take action.
- 18.8 The DPM will maintain comprehensive files for every contract undertaken or planned. Such files should contain all relevant documents and correspondence.
- 18.9 All officers and consultants shall have regard to the requirements of the SHR in respect of matters relating to contracts.

## **19 Banking**

- 19.1 The FM will be responsible for:
- the appointment of/changes to the Association's bankers
  - the setting up and control of all bank accounts
  - the safe custody of cheques
  - the daily banking of cash and cheques
  - ensuring that all bank accounts are subject to regular reconciliation and that large or unusual items are investigated as appropriate
- 19.2 Wherever possible the Association's Bankline facility should be used to process payments. The FM and the HCG, as dual controllers, are responsible for user permissions and the issue and control of smartcards and smartcard readers.
- 19.3 Cheques must be signed by two staff members authorised by MC as detailed in the Bank Mandate.

## **20 Assets**

- 20.1 The purchase, lease or rent of new property or fixed plant can only be undertaken in accordance with the Scheme of Delegations and the Procurement Policy.
- 20.2 An inventory of non-housing assets will be maintained by the FM in a Fixed Asset Register, recording the cost and an adequate description of plant, equipment, fixtures and fittings owned by the Association.

- 20.3 Relevant officers will be responsible to the FM for maintaining an annual check of all items on the fixed asset register and for taking action in relation to surpluses or deficiencies.
- 20.4 Each identified officer will also ensure that all property and equipment is safely stored and maintained in good working order.
- 20.5 The Association's property will not be removed other than in the ordinary course of Association business, nor used other than for the Association's purposes.
- 20.6 A Property Register will be maintained by the HCG containing an adequate description of each Association property, including address, location, number of rooms/persons, and type of tenancy.
- 20.7 A Register of Disposals will be maintained by the FM listing standard securities and the current tranching position of shared ownership properties.
- 20.8 The Association's bankers or solicitors will have the custody of all title deeds under secure arrangements, where not held by the lender.
- 20.9 The sale of surplus plant, materials, equipment and furnishings, where no suitable trade-in arrangements exist, shall be by public auction or sealed bid. The HCG and the DPM have authority to dispose of surplus equipment as detailed in the Scheme of Delegations.
- 20.10 Small items of expenditure, such as office equipment costing less than £300 (including VAT) are treated as revenue items and expensed in the year of purchase.

## **21 Depreciation Policy**

- 21.1 All fixed assets owned by the Association, including office buildings and housing properties, are depreciated in a way that reflects the economic usefulness of the asset.
- 21.2 The rate of depreciation will be set by the P&R and currently is charged as follows:
- Office fixtures and fittings                      25% reducing balance
  - Office furniture & equipment                      25% reducing balance
  - Tradesman vans and tools                      25% reducing balance
  - Computer equipment                      25% straight line
  - Aareon software                      5% straight line
  - New build properties                      1% straight line
  - Rehabilitated properties/offices                      1.25% straight line
  - Workshop improvements                      33⅓% straight line

## **22 Insurance**

- 22.1 The FM is responsible for effecting insurance cover as determined by MC/SHR/Lenders and is responsible for obtaining quotes and maintaining the necessary records. The FM will also deal with the Association's insurers and advisers about specific insurance problems. Insurance claims relating to our tenanted, factored or shared-ownership properties will be responsibility of the Repairs and Customer Services Assistant. Insurance claims relating to any other matter will be the responsibility of the FM or HCG.
- 22.2 Officers must give prompt notification to the FM of all potential new risks, additional property or equipment which may require insurance and of any changes affecting existing policies.
- 22.3 Officers must advise the HCG or FM immediately of any loss, liability or damage or any event which may give rise to an insurance claim. Detailed procedures for submitting claims are contained in the Insurance Claims Procedures.
- 22.4 All employees of the Association will be covered by the Association's Crime Insurance Policy.
- 22.5 All staff using their own vehicles on behalf of the Association will maintain appropriate insurance cover for business use.

## **23 Security**

- 23.1 Staff are responsible for maintaining proper security for all buildings, stock, stores, furniture, cash etc under their control.
- 23.2 A list of office keyholders will be maintained and the loss of office keys must be reported to the HCG immediately.
- 23.3 All staff will be responsible for maintaining proper security and privacy of information. Access to areas where data is stored will be restricted to authorised persons. Information relating to individuals held in files and on computers will be subject to the provisions of the General Data Protection Regulations. A Data Protection Officer (DPO) will be nominated to ensure compliance with the Act.

## **24 Policy Review**

- 24.1 This policy will be reviewed as required but at least every three years in accordance with internal audit recommendations.