

# **FINANCIAL PROCEDURES**

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## **0. Purpose of this document**

To define the financial systems used by Precious Lives and how they relate to all areas of Precious Lives (sometimes referred to as Financial Standing Orders).

Relevant to managers and finance staff / All suggestions for amendments to Financial Controller Minor amendments / updates to be agreed by Management Team; major amendments by Board of Trustees.

## **1. Ordering supplies and services**

All staff need to be aware that expenditure is committed when an order is placed on behalf of Precious Lives, not when the cheque is requested. Therefore, it is important that all orders are placed properly, and are within agreed budgets and delegated powers.

Budget holders can place orders for goods or services within their budget areas, subject only to cash-flow restraints. All orders of £1,000 or more must be authorised by the budget holder, except for specific areas of expenditure where written procedures have been agreed (e.g. book printing). Under £1,000, the budget holder may delegate all ordering as appropriate. Budget holders will discuss with the Financial Controller appropriate parameters, plus maximum allowed deviations before the budget holder or senior manager is brought in, which will be documented.

Any lease, hire purchase agreement or other contract involving expenditure will be subject to the same authorisation procedure as above, with the appropriate expenditure amount being the total committed expenditure over the period of the contract, or where the contract is open-ended, over the first 12 months of the contract. Larger contracts should not be entered into without adequate advice from a relevant professional adviser (e.g. accountant, solicitor, surveyor).

Orders of £1,000 or more must be placed in writing. Orders under £1,000 but over £100 should be in writing where practical. Each Department will devise appropriate ways of keeping records of such orders, which will be contained in an Appendix. Suppliers must be requested to produce invoices. If payment is needed on or before delivery or no credit is given, a 'pro-forma' should be provided.

While claims for small items of expenditure may be made via petty cash (see section 4), adequate supporting documentation, preferably receipts, must be obtained. Large items requiring cash payment must be checked with Finance before the arrangement is confirmed.

## **2. Payment authorisation and Purchase Ledger**

All invoices must be authorised for payment by the budget holder, although the actual checking of details may be delegated. The authorising department is responsible for checking invoices for accuracy in terms of figures and conformity with the order placed, that the services or goods have been received, and following up any problems. Finance must be informed if there are queries delaying authorisation or if payment is to be withheld for any reason.

A Purchase Ledger is operated by Finance. All incoming invoices are to be passed to Finance section as soon as they arrive. Invoices will be recorded on to the Purchase Ledger within two days, unless there are coding problems. They are then passed on to budget holders for authorisation. Once authorised as above,

suppliers will be paid within the appropriate timescale. This is generally 14 days of invoice date for NICE PEOPLE, 30 days for others, unless there are exceptional cash-flow difficulties or specific supplier arrangements. The latter must be communicated by budget holders to Finance, who will inform them of any difficulties in meeting these.

Refunds of overpayments or cancellations of bookings/orders can be fully delegated to the relevant activity manager or administrator (note that this does not include any 'compensation' or similar payment).

### **3. Cheque writing and signing**

Signatories will only be drawn from senior staff and Trustees, and any new signatory must be approved by the Trustees before the bank is notified. All cheques for £100 or over require two signatories. Cheque signatories should check that the expenditure has been authorised by the appropriate person before signing the cheque. Salary payments require the signature of the Director, Company Secretary, Financial Controller or a member of the Board of Trustees, plus one other.

Signatories **will not** sign cheques which are payable to themselves, or blank cheques. Cheques should be filled in completely (with payee, amount in words and figures, and date) before cheques are signed.

The only acceptable exception is that the amount can be blank as long as the cheque is endorsed 'Not more than £40. Receipts for this type of expenditure must be returned immediately.

The day-to-day limit on encashment of cheques is £250. However, where a larger cash float is required (for a major event for example), this may be approved by the Financial Controller with the Director. When signing cheques to restore the imprest balance (see section 4), receipts accompanied by an add-list must be presented with the cheque request.

### **4. Handling of cash**

Petty cash will be topped up on the 'imprest' system, where the amount spent is reimbursed. It is intended for small items, up to £20. Anything over this should be paid by cheque where possible. The imprest has a balance limit of £250. The petty cash balance will be reconciled when re-storing the imprest balance, or monthly if this is more frequent.

All cash collected from Finance will be signed for, and receipts will be issued for all cash returned. Specific extra cash floats (for tills at events etc.) should be arranged with the Financial Controller. The person signing for the float is responsible for ensuring cash and receipts are returned as soon as possible after the event etc. No further floats may be issued to that person, or another person in the same department for a similar purpose, unless the previous float has been accounted for.

Mixing money or receipts from different petty cash sources creates large accounting problems. In a real emergency, where another cash float has to be used for something, a clear record must be kept, and brought to Finance Section's attention.

Any cash income will be banked via Finance, and not used for petty cash expenditure. Such cash will be passed to Finance:

- Weekly for cash received in-house
- Monthly for payphone
- Immediately after the end of an out-of-house event.

Cash will be kept in locked metal cabinets wherever possible. Appropriate arrangements will be made for till security.

## **5. Salaries, payroll and freelancers**

Also refer to volunteer (and staff) expenses here.

Precious Lives is required to operate the PAYE system, and make annual returns to the Inland Revenue. All people working directly for Precious Lives, whether permanent or temporary, must provide a P45, or sign a P46 or student exemption certificate, or give reasons why they can't. All payments will be made by cheque or direct bank credit.

It is the nature of Precious Lives' activities that a large number of freelance consultants will be used. Freelance contractors will only be taken on when authorised in accordance with section 1 above. With a few exceptions, they will be treated as self-employed, and contracts with such people must clearly indicate this. However, work in other areas of activity must be assumed to be employed by PRECIOUS LIVES and so subject to PAYE & NIC. Finance will obtain clarification of any unclear areas as needed.

Payments for additional work over and above standard hours must be approved by the relevant Department Head. Clear written authorisation must be given in adequate time for Finance to process it for the relevant payroll. These claims are financial records, and should be treated in the same way as any other.

Payment will usually be made via the bank's Autopay service, direct to employees' bank account. The salary payment listings will be checked by the Financial Controller. Salaries will be paid on the 28th of the month, or nearest working day, apart from in December, when it will be the 23rd.

Pay scales and new posts/re-structuring are approved by the Director, and are revised by March for implementation in April. The Board of Trustees will set the Director's remuneration. Appointments to existing posts are the responsibility of the appropriate Department Head (or Director for senior positions). Staff loans are not issued, but advances may be made against salary due, by arrangement with Finance.

The finance section is responsible for:

- Paying each employee in accordance with the approved terms and conditions, and issuing payslips.
- Operating the PAYE system, keeping the required records, issuing P45s and P60s, and communicating with the tax office as appropriate.
- Making the correct deductions for Income Tax, NI, court orders and any other appropriate deduction authorised by staff; ensuring that deductions are paid to the correct body, and necessary returns made.
- Administering the Statutory Sick Pay and Statutory Maternity Pay schemes, alongside any additional related benefits provided by Precious Lives.

## **6. Income**

The majority of income received by Precious Lives is from sales of services and goods produced. With the exception of bookshop sales, invoices will be issued for every sale as soon as practical. For completeness of customer and sales information, this includes where payment is received with order.

All invoices should be raised on Precious Lives letterhead, or in a format agreed with the Financial Controller and auditors, and be drawn up in accordance with Precious Lives' standard invoice requirements. In particular VAT invoices need to meet HM Customs and Excise requirements, and must include the VAT registration number, VAT rate and VAT amount. All invoices will be sequentially numbered, with each area of activity having its own prefix reference, agreed with Finance. Any accidental deviations from such sequences must be notified to Finance.

Invoice listings will be produced on a regular basis by the departments generating them. This is at least monthly, to fit in with the reporting system, although high volume activities are expected to be listed weekly. Outstanding invoice payments will be followed up at least monthly by the relevant department.

Information about non-routine and all grant income must be passed to Finance with the cheque or remittance advice. This will be filed by Finance for reference, and used to ensure such income is correctly recorded in the accounts and grant conditions etc. noted. Lack of documentation will lead to such items being 'held on suspense'. It is the responsibility of the person gaining the grant to ensure all grant income is claimed as it becomes due or available, and that all appropriate staff and the Finance Section are aware of relevant grant conditions and exactly how the grant is to be expended.

Post opening (and control of cheques and cash in) will be subject to random management checks. The process will be written down, so that there is a clear standard for those doing the work regularly, and others covering or checking.

*Could also refer to investments (if you have any)*

## **7. Bank accounts**

PRECIOUS LIVES' bankers are:

- **HSBC, .**

An automatic sweep arrangement between current and reserve accounts is operated. These arrangements are subject to review, in the light of what is most advantageous in terms of cost and service. All changes are to be authorised by the Trustees.

All income will be paid into the current accounts as soon as possible, not less than once a week. The make up of each banking will be clearly recorded, for later computer entry.

## **8. Books of account and records**

Proper accounting records will be kept. The accounts systems is based around computer facilities, using Sage and Excel, but manual/paper records will also be used if appropriate.

At a minimum, the following records will be kept:

- Appropriate control accounts (i.e. bank control, petty cash control, VAT control).
- Salary control account.
- Monthly trial balances.

Petty cash and bank accounts will be reconciled at least monthly, and VAT returns produced on the required quarterly cycle.

All vouchers entered into the computer system will be clearly initialled by the person entering it, along with date and accounts reference. All income/ expenditure information will be recorded within three days. All corrections and adjustments will be clearly noted in a written 'Journal' giving reasons for them, with supporting documentation where available.

Purchase Ledger, other cheque payments and banking sheets will be filed in the appropriate reference order, with any supporting documentation. All petty cash vouchers, cheque stubs etc. will be retained for audit and for statutory purposes thereafter.

All fixed assets costing more than £250 (or such other level as may from time to time be agreed by the trustees) will be capitalised in the accounts and recorded in a fixed assets register. This register will record details of date of purchase, supplier, cost, serial no. where applicable, description and in due course details of disposal.

## **9. Budget setting**

12 monthly income and expenditure budgets will be prepared in time for final approval by the Board of Trustees in December, before the start of the financial year under consideration. Department budgets are prepared by the Head of Department, working with the Financial Controller. Central management budgets are prepared by the Financial Controller in consultation with the Director. The Management Team will play a lead role in ensuring that budgets are set fairly, efficiently and in time. Approval of the budgets is by recommendation of the Management Team to the Board of Trustees.

The approved budget will be used as a base to construct a cash-flow forecast for the year, which will be updated quarterly.

## **10. Financial monitoring and audit**

All budget holders will receive appropriate, regular reports of income and expenditure against budget. The Management Team will receive:

- weekly snapshots of cash in hand, total creditors and total debtors.
- weekly graph of cash in hand.
- monthly reports of income and expenditure versus budget - within two weeks of month end.

Detailed monthly payroll reports will be produced. Detailed cash-flow reports will be produced as appropriate.

**PRECIOUS LIVES' financial year is from 1<sup>st</sup> January to 31<sup>st</sup> December.** Annual accounts will be submitted for audit, as required under the Companies Act, charity regulations and grant conditions, prepared per SORP for Charities and any other relevant accounting conventions. Final draft should be ready for and passed by Board of Trustees in March, with audited accounts signed at the June meeting.

## **11. Role of Treasurer**

*Extracted from Charity Finance Yearbook:*

The Treasurer works in close co-operation with, and provides support and advice to, the Financial Controller. Specific responsibilities are to:

- Guide and advise the Board in the approval of budgets, accounts and financial statements, within a relevant policy framework.
- Keep the Board informed about its financial duties and responsibilities.
- Advise the Board on the financial implications of Precious Lives’ strategic plans and key assumptions included in management’s operational plan and annual budget.
- Confirm that the financial resources of Precious Lives meet present and future needs.
- Understand the accounting procedures and key internal controls, so as to be able assure the Board of Precious Lives’ financial integrity.
- Ensure that the accounts are properly audited, that accepted recommendations of the auditors are implemented, and meet the auditor at least once a year.
- Formally present the accounts at the AGM, drawing attention to important points.
- Monitor Precious Lives’ investment activity and ensure its consistency with policies, aims, objectives and legal responsibilities

## 12. Role of Management

The Management team consists of **Heads of This That and the Other**, Financial Controller, plus the Director. Each has responsibility for their individual department’s financial performance and ensuring that the department complies with Financial Procedures. They will receive weekly snapshots and monthly management accounts, keeping adequate records to be in control between monthly reports. The Team will review finances thoroughly at its monthly meetings.

## 13. Role of Board of Trustees

The committee is responsible for:

- Approving the budget for the year.
- Approving signatories to the bank accounts.
- Appointments of staff where not delegated to the Director.
- Receiving reports from the Management Team on areas of concern.
- Approving exceptional items of expenditure.
- Monitoring the financial position based on monthly reports, with advice from the Director.
- Approving the annual accounts, auditors report and appointment.

## 14. Role of Financial Controller

The Financial Controller is the lead person for processing all changes and exceptional items, and will assist the Treasurer in any financial matter connected with the Precious Lives.

The Financial Controller will ensure that adequate security precautions are taken to safeguard financial and other assets. OR Refer to Job Description

Date Implemented: 20 <sup>th</sup> March	Future Review Dates			
	2011	2012	2013	Notes
Date to reviewed	June	June	June	
Date approved By Trustees				