# Financial procedures: drafting guidance

Finance is an area where the development of technology in general and online activity in particular have resulted in ever-increasing variations in practice between organisations. For this reason, whilst we have occasionally offered a sample text or a dire warning, we have mostly sought to guide you through drafting your own wording.

Before you start here are a few general drafting tips.

**Use the ‘active voice’** rather than the ‘passive voice’. Say ‘we will supply x’ rather ‘x will be supplied’.

**Allocate responsibility**. Saying ‘we will’ is fine for the odd broad statement of intent, but in most cases you need to say things like ‘the Finance Officer will’. If it’s everyone’s responsibility, it could end up being no-one’s.

**Be specific**. It may well be that you’re not sure about your exact intentions in some areas, especially if you’re just starting out. Don’t make the mistake of waffling to cover up for your uncertainty. Better to write something definite that you subsequently have to change than something so vague that it means all things to all people and lasts forever.

**Treat this as a collective work-in-progress**. Develop it in stages. Your first draft may contain as many questions as answers. You need to ensure that the final draft reflects the collective intentions of your organisation. Even then, you will need to test it in practice. Review it after say six months and decide what you need to change.

**Value the process**. A set of procedures that you’ve had to think about can be infinitely more valuable than a set that you’ve taken off someone else’s shelf and filed away.

# ANYORG: Financial procedures

Status, e.g. approved by Board [date]; to be reviewed [date]

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You can right-click on the Contents Table to update it at any time. This will work as long as you maintain the section heading formatting in the document. Right-click on the table and edit Paragraph settings to remove any extra line-spacing.

## Status of this document

These procedures set out the agreed rules for managing our finances. All board members, staff and volunteers are required to follow these rules, and any breach may be treated as a disciplinary offence.

Any amendments to these rules must be agreed by the board.

## Governance

The organisation is a [legal and charitable status].

It’s supreme decision-making body is the [board of trustees/directors / management committee].

#### [Board of trustees/directors / management committee]

the board’s role in relation to finance includes [SAMPLE VERSION]:

* Ensuring that the assets of the organisation are safeguarded
* Ensuring that the organisation has robust systems of internal finance control
* Ensuring that the organisation meets all its legal and financial obligations to file accounts and returns on time with the correct authorities
* Approving the budget for the year
* Approving signatories to the bank accounts
* Appointment of staff where not delegated to the Chief Executive
* Receiving reports from the Chief Executive [and Finance Manager] on areas of concern.
* Approving exceptional items of expenditure over [£25,000]
* Monitoring the financial position based on [monthly] reports, with advice from the Chief Executive, treasurer [and Finance Manager]
* Approving the annual accounts, auditors report and appointment

The board will also appoint one of its members to be the honorary treasurer.

The Treasurer’s role is to [INSERT ROLE DESCRIPTION / USE SAMPLE ROLE DESCRIPTION BELOW (or parts of it)]:

#### Treasurer

The treasurer’s main duty is to ensure that the board of trustees is

* made aware of financial issues
* Enabled to make informed decisions concerning the organisation’s affairs
* Assured that proper financial records and procedures are being maintained

The Treasurer needs to maintain an overview of the organisation's affairs and viability and to scrutinise its financial systems. In addition to the general responsibility of being a member of the board, the treasurer has the following specific duties:

* To keep the board informed about its financial duties and responsibilities
* To work with the finance and facilities manager to prepare and present financial reports to the board
* To guide and advise the board in the approval of budgets, accounts and financial statements
* To advise the board on the financial implications of the organisation’s strategic plans and key assumptions included in management’s operational plan and annual budget.
* To make a formal presentation of the accounts at the Annual General Meeting, drawing attention to important points in a coherent and easily understandable way.
* To ensure that appropriate accounting procedures and controls are in place
* To understand the accounting procedures and key internal controls, so as to be able assure the board of the organisation’s financial integrity.
* To ensure that the organisation has an appropriate reserves policy
* To ensure the organisation's compliance with legislation
* To ensure that the accounts are properly audited and that accepted recommendations of the auditors are implemented.
* To ensure that the accounts are prepared and disclosed in the form required by funders and the relevant statutory bodies [Charity Commission, Companies House]
* To contribute to the funding strategy of the organisation
* To liaise with staff about financial matters
* To support the [Management Team] in preparing budget forecasts.
* To act as an advisor to the staff and the Board on financial policies, such as measures to ensure security of cash and banking arrangements.
* To be a signatory on the accounts.

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#### [Chief Executive / Manager etc]

The Chief Executive’s role includes [INSERT RELEVANT ASPECTS OF JOB DESCRIPTION]

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#### [Administrator / Finance Manager/Officer etc]

The [Administrator]’s role includes [INSERT RELEVANT ASPECTS OF JOB DESCRIPTION]

## Accounting

If you use a professional accountant, you may wish to ask them to clarify your position on these issues.

#### Accounts basis

There are two ways of calculating your accounts:

* ‘cash (or receipts and payments) basis’, where transactions are accounted for as and when the money changes hands, and
* ‘accruals basis’, where transactions are accounted for as and when the payments fall due

Limited companies have to use the accruals basis, as do larger charities with an annual income over £250,000.

* Do you understand the difference?
* Do you understand what you options are?
* Are you clear which basis you are using?
* Do you need [further guidance](https://www.resourcecentre.org.uk/information/charity-reporting-and-accounts/)?

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#### Annual reporting requirements

The requirements for you are likely to be contingent on:

* Your legal status (e.g. limited company, unincorporated).
* Your charitable status (registered charity or not)
* Your annual income

Limited companies (including CICs) report to Companies House. Unincorporated charities and CIOs report to the Charity Commission. Charitable companies report to both. Registered societies report to the Financial Conduct Authority. Unregistered groups have no regulator, but may still need to fill in an HMRC income tax return.

* Do you know who you have to report to?
* Do you know what level of independent financial examination or audit is required?
* Do you know what your annual deadline is?
* Who will prepare your annual accounts? Who will approve them?
* Who will be responsible for submitting them?

####

#### Financial administration (book-keeping)

* Will you be using manual book-keeping, spreadsheets or accounting software?
* If accounting software, which programme?
* If spreadsheets, which functions (e.g. cash book, petty cash book, monthly reconciliations, orders and contracts etc)?
* Who will do the books, and who else will have access?
* Will data be password-protected and/or kept physically secure?
* How will you maintain an audit trail? What primary documents will be kept, where and for how long? Can you cross-reference to a [Record-keeping Policy](https://www.manchestercommunitycentral.org/support-groups/planning-and-policy-templates)?

## Budgeting

[Explain your budgeting processes here. Key issues to consider:

* Who prepares the budgets and who approves them?
* How frequently do you update them?
* Be clear what your ‘bottom line’ is – normally your accumulated surplus (the balance on general funds) at the year end. This is what you need to keep an eye on. Does the format of your budget show this? Do your budget updates effectively recalculate this estimate each time?
* Do you need cash flow budgeting as well as income and expenditure budgeting? If most of your income is in grants received in advance, then the answer is probably no. If you have substantial trading income or other fluctuating income, then the answer is probably yes. Beware of basing your budgeting purely on money in the bank (cash flow). This can be dangerously deceptive if you are sitting on advance grant payments for work still to be done.
* How will you deal with grants for a specific purpose? You will need to treat these as restricted funds. So how will this be reflected in your budget updates? One simple method is to treat restricted funds as self-contained, apart from the agreed contributions to overheads, so that only the net contributions to overheads from your projects are included in your income and expenditure budget updates. Remember, in income and expenditure budgeting, you are interested in what affects your bottom line.
* If you have a specific method of apportioning overhead costs across projects, then explain it here.]

## Income

[Set out the main ways in which you expect to receive income, e.g.

* Grants
* Donations from individuals
* Gift aid
* Takings from regular events (sessional fees etc)
* Takings from special events (annual fair etc)
* Trading (room hire, delivery of training etc)

Think about the practical issues that arise in each case and ensure they are covered in your procedures. Typical considerations in key areas are suggested below.

#### Grants

* Will you need to invoice for them? Who will do it and when? How will they know?
* Will you need to manage and monitor the grant separately from your other funds? If so, how will you do this?
* How will you ensure that the Board is aware of the purpose of the grant and any key conditions attached to it?

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#### Donations

* If you are a charity, are you aware of the [rules on fund-raising](https://www.gov.uk/government/publications/charities-and-fundraising-cc20)? Are you clear how much of this is relevant to you, and what practical measures you will put in place?
* Do you know what you will do if you receive a large, unidentified donation or if you suspect money laundering?

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#### Trading income

* If you are a charity, do you understand the [rules on trading income](https://www.gov.uk/government/publications/trustees-trading-and-tax-how-charities-may-lawfully-trade-cc35)? Are you clear which types of trading income are ‘primary-purpose’ and which are not? Are you clear whether you need to monitor levels of trading income? For example, a community centre earning a large proportion of its income from private functions could be jeopardising its charitable status, making its trustees in breach of trust.

#### Gift aid

* Are you planning to use Gift Aid? If so, are you clear on the [Gift Aid rules](https://www.gov.uk/guidance/gift-aid-what-donations-charities-and-cascs-can-claim-on)? You will need to set out the procedures for declaration forms and claims.

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#### Incoming cheques and credit transfers

* How will you monitor and record this income?
* How will you handle the cheques?

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#### Cash receipts

This is an area that small groups most commonly get wrong – and often lose control of their finances and open themselves up to fraud as a result. The golden rule is:

**ALWAYS keep cash receipts separate from any petty cash float kept for expenditure; NEVER add cash receipts to your petty cash float, however convenient this may appear.**

* What cash income are you expecting? How much and how often? You may need different processes for a regular trickle and a one-off flood.
* How quickly can you pay it into the bank? Where will you keep it safely in the meantime?
* How will you pay the cash into the bank, and who will do it? Do you need two people for security? Does that include a specified person / manager? Any other security measures?

##

## Expenditure

#### Ordering

Be aware that, even if you are accounting on a cash basis, liability for payment occurs at the point of ordering, so that is when it needs to be authorized.

* How will you generate orders? Who will do this? Will you use order numbers?
* You will need a clear hierarchy of authorisation (see below).
* Will you require supplier invoices?
* Do you need a system for monitoring and maintaining basic supplies, e.g. stationery, cleaning materials, refreshments?
* Do you need a procedure for cash purchases and/or purchases by staff members (see below)?
* Do you need a procedure for checking deliveries?
* Do you need a procedure for dealing with returns?
* How will you keep a record of orders and deliveries?

#### Authorisation / Financial delegation

You may wish to create a simple table, something like this example:

|  |  |
| --- | --- |
| AMOUNT | AUTHORISATION |
| Up to £20 | Any staff member |
| Over £20 and up to £500  | Manager |
| Over £500 and up to £2500 | Treasurer |
| Over £2500 | Board  |

You may wish to specify a maximum level of expenditure for:

* cash purchases (see below)
* card purchases (see below)
* verbal orders
* Board decisions taken without legal advice

Consider:

* How will you process these authorisations in practice, e.g. signed form, email message, Board minutes, online banking authorisation process?

####

#### Banking

Insert information about your existing bank account(s)

* Who takes the decisions on opening and closing bank accounts?
* How does the Board monitor the expenditure?
* Who carries out monthly bank reconciliations and how? Who checks these?

If you are using online banking, you will need to consider:

* Who will have access to the account to view and spot-check transactions?
* Who will prepare the transactions?
* What documentary information will they need to provide to the signatories (e.g. invoices, expense claims, salary schedule)?
* Who will authorise them (e.g. two Board members)?
* Will your bank accept more precise instructions that mirror your financial delegation rules (above)?
* What information or identification will bank signatories need to provide?
* Do you need rules to cover switching funds between accounts?

If you are still using cheques, you will need similar rules covering:

* What authorities are required (e.g. two signatures, one a trustee)?
* Are payee and date filled in fully and correctly before signing?

As ever, the golden rule is:

**NEVER pre-sign cheques, however convenient this may appear; ALWAYS complete the cheque in full before requesting or providing a signature.**

####

#### Payment cards

* Will your organisation hold a credit or debit card? Is this necessary? Would Staff Purchasing (see below) represent a better option?
* If you do need this facility, how many cards and of what type? Who will hold them? Can you ensure that the card-issuer applies limits matching your financial delegation rules?
* Can you set single-transaction and/or monthly-total limits? Do you wish to?
* How will card purchases be monitored?

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#### Petty cash

* Will your organization maintain a petty cash float? Is this necessary? Would Staff Purchasing (see below) represent a better option?
* Where will you keep the cash tin securely? Who will have access?
* What float level will you set? Will you use an imprest system?
* Who will do the banking runs? Are there personal safety issues?
* Who will do the petty cash reconciliations and who will check them?

####

#### Staff purchasing / Personal floats

* Are considerations like convenience, speed and informality a valid consideration in planning your ordering and purchasing arrangements?
* Would staff be happy to use their own payment cards to buy supplies if they knew they would never be out of pocket? Does your organisation have the sort of internal culture where this would be seen as acceptable?

If the answer to both questions is yes, then staff purchasing may be a better option than both payment cards and petty cash. It works like an imprest system, except that the float does not take the form of cash.

Jill Doe (Project Worker) and Jack Dash (Administrator) both need to make regular purchases in the course of their work. Each receives a personal float of say £100, paid into their bank account. They are then responsible for that money. They make purchases using their own payment cards, and, as their floats become depleted, they may make an expenses claim at any time to top their floats back up to the agreed level.

####

#### Payroll

Assuming you have paid staff, you will need to consider:

* Who is your ‘payroll clerk’? A staff member or an external contractor?
* Who supplies the payroll list (names, gross salaries, bank details, specific deductions)? What is the source (employment contracts)?
* What is your payment interval – monthly?
* What is the latest day of the month when staff need to receive a cleared payment?
* Who supplies any changes to the list or any salary variations and what is the monthly deadline for this?
* Who calculates the PAYE and net pay supplies the payment schedule? What is the monthly deadline for this?
* Who organises and who authorises the bank transfers (staff, HMRC)? What are the deadlines?
* Who produces any PAYE certificates (P45, P60 etc)? Any deadlines?
* Do you need policy and procedure re advances on salary?

####

#### Free-lance workers

Assuming you use free-lance workers, you will need to consider:

* How will you evidence legitimate self-employment? A reasonable requirement would be for invoices to carry either a company number or a self-employed person’s UTR (unique tax reference). Note that you will not automatically be self-employed just because you have an existing UTR number and submit tax returns each year, your position lacks permanency; or you provide your own small tools. Please refer to [Employment Status factsheet](http://www.manchestercommunitycentral.org/sites/manchestercommunitycentral.co.uk/files/Employment%20Status%20factseet.pdf) and [Gov.uk guidance](https://www.gov.uk/find-lost-utr-number)
* Any general rules for invoicing and payment, or just as per contract?

####

#### Expenses

Here you will need to consider:

* Do these rules apply to all expenses claims, including when topping up personal floats under a staff purchasing process?
* Are some rules different for paid staff and volunteers?
* Who approves and processes the claims and how they are paid (cheque, bank transfer etc.)?
* Can claims be submitted at any time or is there a monthly deadline?
* What is your policy on mileage claims (cars, bikes)? NB This could be defined with reference to [HMRC allowance levels](https://www.gov.uk/government/publications/rates-and-allowances-travel-mileage-and-fuel-allowances/travel-mileage-and-fuel-rates-and-allowances)
* What is your policy on claiming for meals? How do people qualify? What can they claim? Is it different for volunteers?
* What is your policy on claiming for public transport: taxis; use of daily or weekly tickets on buses or trams?
* What is your policy on claiming for use of telephones?
* What evidence needs to be supplied with claims?

**NEVER pay standard daily allowances to volunteers, however convenient this may appear (you may be inadvertently conferring employee status on them and incurring PAYE and minimum wage liabilities); ALWAYS link volunteer payments directly to actual expenses in some way.**

##

## Handling cash

* Do you need any general rules on handling or carrying cash beyond what you’ve written under cash receipts and petty cash?
* Are there any security issues in relation to working in the community or home visits?
* Are there any circumstances in which a staff member would ever hold money on behalf of a service user? Be very explicit on this.

##

## Depreciation

You may wish to include a brief statement of your policy on depreciation. Your accountant can guide you on this:

* Will all fixed assets be written off in the year of purchase? Under what circumstances and rules will any assets be depreciated gradually?

##

## Reserves

You may wish to include a brief statement of your policy on reserves (or you may prefer to treat it as a stand-alone policy).

It’s partly about good business sense and partly (if you’re a charity or a social enterprise) about ensuring you provide the maximum public benefit or community benefit that is compatible with financial prudence. So your policy might read something like this:

We will seek, where possible, to maintain a general reserve equivalent to our total running costs for a period of no less than [three] and no more than [twelve] months.

Where the general reserve falls below the lower figure, the Board will consider ways to generate increased reserve funds.

Where the general reserve rises above the higher figure, the Board will consider ways to spend the surplus funds in furtherance of our objects.

We will designate specific reserve funds only in the event of an imminent and quantifiable liability, such as anticipated redundancy of specific posts or repair and removal costs on expiry of a lease.