

<b>POLICY:</b>	<b>FINANCIAL REGULATIONS</b>
<b>POLICY AREA:</b>	<b>FINANCE &amp; INVESTMENT</b>
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## 1. INTRODUCTION

The Financial Regulations provide the framework for managing the financial affairs of the Association.

The Financial Regulations apply to every Committee Member and staff member of the Association.

All Committee Members and staff have a duty to take reasonable action to provide for the security of the assets under their control, and to ensure that the use of resources of the Association is legal, properly authorised, in the best interests of the Association.

The Finance & Investment Manager has a duty to maintain a continuous review of the Financial Regulations, submitting any additions or amendments to the management Committee for approval.

## 2. FRAMEWORK

### *2.1 Rules of the Association*

The Association is registered under the Co-operative & Community benefits Act 2014 and must operate within its Rules as approved by the Scottish Housing Regulator and the Financial Conduct Authority.

Nothing in these Financial Regulations can be taken as authority to act outside those Rules or any relevant legislation.

### *2.2 Objectives of the Financial Regulations:*

- (a) Providing a clear simple set of rules laying out the procedures and standards required in the conduct of financial transactions;
- (b) Ensuring that decisions are delegated to the appropriate level consistent with the policies of the Association and proper financial management.

### *2.3 Legality*

The Regulations are compulsory and binding upon the Association's Management Committee, Officers and those acting for the Association, whether as employees, as persons seconded from some other organisation, or as agents or consultants.

### *2.4 Changes to the Regulations*

All proposed changes shall be reported to the Management Committee and shall not take effect until their approval is given.

## 2.5 *Linked Documents*

These Regulations should be read in conjunction with the Schedule of Internal Controls / Authorities which can be found at

[\\PHA-FPS-P001\COMMON\Policies & Procedures\Current Policies\Finance & Investment\Schedule of Authorities Approved 19102022.docx](#)

Also Committee remits, Schedule of Performance Reports & Financial and other policies relating to specific areas of operation.

## 2.6 *Scottish Housing Regulators Regulatory Standards in Governance & Financial Management – Standard 3*

This Standard requires that the RSL manages its resources to ensure financial well-being, while maintaining rents at a level that tenants can afford to pay.

Having effective financial and treasury management controls in place is key to meeting this Standard. The Financial Regulations is a key control document.

## 2.7 *Review*

The Financial Regulations will be reviewed every 3 years or where any significant requirement dictates an earlier review.

# 3. **FINANCIAL CONTROL**

## 3.1 *Management Committee*

The Management Committee will:

- ensure that the Association operates as economically, efficiently and effectively as possible within the Association's overall objectives ensuring a value for money focus for tenants;
- Safeguard the assets of the association;
- be in control of the Association's finances and ensure that expenditure of the Association is covered by income from all sources thus ensuring solvency;
- ensure that the Association complies with all auditing and accounting legislation ensure the effectiveness of the Association's system of internal financial control and regularly review;
- ensure that adequate financial projections are prepared and reviewed in order to demonstrate future financial viability to key stakeholders such as the Scottish Housing Regulator and funders;
- ensure compliance with the Scottish Housing Regulator's Regulatory

Standards of Governance and Financial Management.

### *3.2 Committee Structure*

The Management Committee delegates its responsibilities to the Sub-committees as detailed below. Sub-committees are ultimately responsible to the Management Committee.

## **4. RESPONSIBILITIES - OFFICERS**

### *4.1 Director*

The Director is the chief operating officer of the organisation and is responsible for operational management and assisting the Management Committee in determining the strategic objectives of the Association and delivering same.

The Director reports to the Management Committee.

### *4.2 Finance & Investment Manager*

The Finance & Investment Manager is responsible for the day to day financial administration of the Association and control of the Finance and Investment Department.

The Finance & Investment Manager is responsible to the Director for:

- Financial and business planning
- Preparation of short term, medium term and long term financial capital and revenue budgets and cash flows
- Preparing management accounts and performance information, monitoring and control against budgets and all financial operations
- Monitoring and ensuring loan covenant compliance
- Preparation of financial statements and other statutory returns within timescales
- Ensuring compliance with relevant regulations, laws and other statutory requirements
- Safeguarding the assets of the Association
- Treasury Management
- providing advice to the Committee and Management Team on all financial matters

### *4.3 Other Staff*

The Management Team is responsible for the financial management within their departments.

All staff members have a duty to be familiar with the Financial Regulations and ensure compliance with same.

## 5. BUDGETING

The budget is prepared in a form agreed by the Management Committee. It is to be in line with the objectives of the Association and will form part of the business planning process.

It will have separate sections for revenue operations and the capital programme. It will incorporate the requirements as laid down in the Development Strategy for any proposed development works.

Preparation will commence three or four months prior to the financial year end and will be prepared by the Finance & Investment Manager in conjunction with the relevant senior staff. This process will run concurrently with, and intertwine with the annual rent review process.

The budget will be approved by the Management Committee by the last month of the preceding financial year.

Once approved, the budget is used as the basis for authority for budget holders to incur expenditure and for comparison with actual monthly/quarterly performance results.

On production of the mid-year accounts, the Finance & Investment Manager will undertake a mid-year budget review and make recommendations to the Management Committee for any outturn amendments and/or reallocation of budgets. These changes will be incorporated into the management accounts and reports presented thereafter.

In addition to the annual budget, five year financial projections will be compiled at the same time to allow Committee to have a medium term view on decisions taken annually.

The budget setting process will incorporate stress testing of the assumptions used, and sensitivity analysis for testing compliance with loan covenants. This provides Committee with the impact on the budget of the decisions being made.

The 30 year cash flow also forms part of the exercise to identify resources and manage same.

Variations in actual income and expenditure against budget are reported to the Finance & General Purposes Sub Committee monthly and to Management Committee every quarter by the Finance & Investment Manager.

Variations to the budget must be approved by the Management Committee and reported as an outturn variance.

The Chair or named staff member can authorise an overspend up to an agreed amount as specified in the Schedule of Internal Controls/Authorities in between meetings of the Management Committee, subject to reporting to the next committee.

The Director / Finance & Investment Manager shall have authority to approve virements up to an agreed amount as specified in the Schedule of Internal Controls/ Authorities.

Virement is the process whereby overruns of expenditure may be set off against underruns in other related types of expense.

From time to time identified officers may propose a new policy, or variation of existing policy, or a variation in the means or timescale of implementing an existing policy which has not already been dealt with in the business plan and budget. In these cases, the Finance & Investment Manager will submit a report on the subject matter to the Management Committee outlining possible effects that the proposition will have on the association's finances

At all times due regard will be given to covenant compliance.

Nothing in these Financial Regulations shall prevent an identified officer from incurring expenditure which is essential to meet any immediate needs created by an emergency, subject to such action being reported forthwith to the Management Committee.

## 6. ACCOUNTING POLICIES

### 6.1 *Financial Reporting Framework*

The financial statements are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) including FRS102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland, the Housing SORP 2018 “Statement of Recommended Practice for Registered Housing providers” and in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, Part 6 of the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements – December 2019.

### 6.2 *Depreciation of Housing Properties*

The Association separately identifies the major components of its housing properties and charges depreciation so as to write-down the cost of each component to its estimated residual value, on a straight line basis over the following years:

Land	Not depreciated
Assets under construction	Not depreciated
Structure	60 years
Roof	60 years
Cent Heat - Boiler	15 years
Cent Heat - System	25 years
Doors	25 years
Windows	35 years

Kitchens	20 years
Sanitary-ware	30 years

Each component has a substantially different economic life and is depreciated over this individual life as per the depreciation rates shown above.

### 6.3 *Impairment of Fixed Assets.*

An annual assessment is carried out to identify any shortfalls between the carrying value of fixed assets (including housing properties) and their recoverable amounts, being the higher of fair value less costs to sell and value-in-use of the assets. Any such impairment loss is recognised in the Statement of Comprehensive Income account.

### 6.4 *Other Tangible Fixed Assets*

These assets are initially measured at cost and net of depreciation. Assets are written off over their useful lives as follows:

Computer Equipment	33% on cost
Office Property	2% on cost
Fixtures & Fittings	25% on cost

## 7. FINANCIAL REPORTING

The Finance & Investment Manager shall:

- keep the Management Committee informed, at least each quarter, as to the state of the Association's finances;
- present the statutory accounts of each financial year within four months of the financial year to the Management Committee;
- provide the Scottish Housing Regulator with audited financial statements within six months of the year end;
- provide other relevant bodies with a copy of the statutory accounts within their required timescales;
- Submit any statutory returns within the required timescales.

## 8. ACCOUNTING

The accounting Regulations, policies and procedures and other records of the Association shall be determined by the Finance & Investment Manager in accordance with requirements of statutory agencies and authorities.

Where possible the duties of providing information about money due to or from the Association and recording these sums shall be separated from the duty of

collecting or paying them.

A chart of accounts is maintained by the Finance & Investment Manager, which incorporates a coding structure for all the books/records above. Only the Finance & Investment Manager can authorise the insertion/deletion of codes in the chart of accounts.

## 9. ACCOUNTING RECORDS

The Finance & Investment Manager is responsible for the retention of the financial documents for the time noted below:

Accounting Records	6 years
Payroll records	6 years
VAT records	6 years

## 10. EXTERNAL AUDIT

### 10.1 Purpose

The purpose of the external audit function is to report to the Association's Members on the financial statements and the internal controls in place allowing the auditors to form a basis of opinion as to whether, in their opinion, the statements provide Members with a true and fair view of the state of the Association's affairs and that they have been compiled in accordance with the relevant legislation.

### 10.2 Appointment of External Auditors

In line with recommended practice the External Audit function is tendered at least every 7 years and in line with the relevant procurement procedure in place.

The appointment of the external auditor takes place at the Annual General Meeting following a recommendation from the Management Committee to appoint or re-appoint the auditors.

### 10.3 Effectiveness of the External Auditor

Each year the Audit Committee will review the effectiveness of the external audit report back to the Management Committee their opinion.

## 11. INTERNAL AUDIT

### 11.1 Purpose

The purpose of Internal Audit is to provide the Management Committee with external validation, assurance and opinion on the adequacy on internal controls in place.

### 11.2 Appointment

The Internal audit function is usually tendered on a 3 yearly basis and in line with relevant procurement procedures.

### *11.3 Role of the Internal Auditor*

The internal auditor has the authority to:

- obtain access to all records, documentation and correspondence relating to any financial or other relevant transaction, including documents of a confidential nature;
- obtain access at any reasonable time to any land, premises or personnel of the association;
- require any employee of the association to produce cash, stores or any other association property under his/her control;
- require and receive such explanations as are necessary concerning any matter under examination.

## **12. INCOME & BANKING**

The Management Committee is responsible for the appointment of the Association's bankers and the authorisation of the opening of any additional bank accounts.

The Finance & Investment Manager is responsible for:

- ensuring that appropriate procedures are in place to safeguard the assets and maximise the income of the Association;
- the setting up and controlling of all bank accounts and safekeeping of monetary documents such as cheques;
- ensuring that all bank accounts are subject to regular reconciliation;
- the collection of all money due to the Association

All employees shall furnish the Finance & Investment Manager with such particulars in connection with work done, goods supplied or services rendered and of all other amounts due as may be required by him/her to record correctly all sums due to the association.

Detailed procedures for the issuing of invoices for recovery of income are outlined in the relevant procedures.

All money received by an employee on behalf of the association shall be, without delay, transferred to the Finance & Investment Manager, who shall bank it as soon as possible.

Transfers of money between employees will be recorded and signed for by the receiving officer.

### **13. IRRECOVERABLE INCOME**

The writing off of irrecoverable income must be approved by the Management Committee. This is normally done annually in the last month of the financial year.

### **14. EXPENDITURE**

The Finance & Investment Manager is responsible for making payments to suppliers for goods and services received.

Only designated budget holders have authority to incur expenditure for which they are responsible for as appointed by the Management Committee and laid down in the Schedule of Authorities.

#### *14.1 Orders*

Official orders shall be issued for all work, goods or services to be supplied to the association except for suppliers of public utility services or for periodic payments such as rent or rates.

Official orders are to be approved and signed only by designated budget holders or authorised person(s) as detailed in the Schedule of Internal Controls/Authorities.

Works/goods in excess of an amount stated in the detailed Schedule of Internal Controls/Authorities must receive 3 quotations before any order and appropriate procedures for tender returns must be observed, except those of a specialist nature as allowed for in the policy.

#### *14.2 Payments of Invoices*

Payments will be made only on the authority of an authorised cheque signatory.

The designated budget holder responsible for issuing orders must examine, verify and certify related invoices, contract certification, and any other payment vouchers arising from their department.

Before any payment is made the designated budget holder shall be satisfied that:-

- the work, goods or services to which the original order related has been received, carried out, examined and approved;
- the price is correct;
- the account has not been previously passed for payment;
- whereupon the budget holder will sign or initial the relevant invoice/payment voucher and pass to the Finance & Investment Manager for payment;
- Where work, goods or services have been ordered by the Finance & Investment Manager, payment must be approved by the Director or Housing Manager.

#### *14.3 Salaries*

All salary/wage rates are approved by the Management Committee. The placing of individuals on approved scales will be the responsibility of the Director.

Staff are paid on a set day each month as specified in contracts of employment.

#### *14.4 Petty Cash*

Petty cash is controlled through an imprest system as detailed in the financial procedures with monthly reconciliations carried out.

### **15. CONTRACTS & TENDERING**

Works contracts are the responsibility of the Programme & Regeneration Manager and in compliance with the detailed contract procedures.

Where contracts provide for payment to be paid by instalments, the Programme & Regeneration Manager shall arrange for the keeping of a register of contracts, which will show -

- the state of accounts on each contract between the Association and the contractor together with other related payments eg. professional fees;
- the sources of funding for each contract and the amount of funding drawn down to date.

This information will be provided to the Finance & Investment Manager.

Payment to contractors on account of contracts shall be made only on a certificate issued by the supervising officer (or architect, engineer or consultant).

Any variation to a contract which has financial implication shall be reported to the Management Committee as soon as practicable, work or expenditure shall be stayed until authorised by the Management Committee, and until adequate funding for the variation has been arranged if, the variation exceeds the agreed delegated limits contained within the Financial Procedures. (See Schedule of Internal Controls/Authorities).

The final certificate of completion of any contract shall not be issued until the appropriate identified officer (or external consultant) has produced to the Finance & Investment Manager a detailed statement of account and all relevant documents.

The Finance & Investment Manager to the extent considered necessary can examine the final accounts for contracts and shall be entitled to make all such enquiries and receive such information and explanations as may be required in order to obtain satisfaction as to the accuracy of the accounts.

Claims from contractors and professional consultants in respect of matters not clearly within the terms of any existing contract shall be referred to the association's solicitor for considerations of the legal liability and, where necessary, to the Finance & Investment Manager for financial consideration before any settlement is made.

Where completion of a contract is delayed beyond the contract period, it shall be the duty of the identified officer concerned to consider, and where appropriate, to take action in respect of any claim of liquidated damages.

The Association will maintain comprehensive files for every contract that has been, is being undertaken or is being planned. Such files will contain all relevant documents and correspondence.

Officers and consultants shall comply with the requirements of the SHR in respect of matters relating to contracts.

## **16. PROPERTY REGISTER**

A property register is maintained recording an adequate description for each house owned in terms of address, location, age of the property and any other factors which require to be taken account of for depreciation purposes.

The register will be amended to take account of any requirements of SORP (Statement of Recommended Practice). See Section 6 regarding Component Accounting policies.

For each house owned, the property register will include the following -

- purchase price and related costs
- date of entry
- current book debt value
- depreciation charges
- amount of grant acquired for purchase, construction or rehabilitation.

The form in which the property register is kept will be determined by the Finance & Investment Manager.

## **17. ASSETS – NON-PROPERTY**

An inventory of assets shall be maintained recording an adequate description of equipment and fittings owned by the Association.

Rates of depreciation for the different categories of fixed assets are set out in the Association's detailed financial procedures.

Each identified officer shall be responsible to the Finance & Investment Manager for maintaining an annual check of all items on the fixed asset register for taking action in relation to surpluses or deficiencies and noted accordingly.

Each identified officer will ensure that property and equipment is maintained in good working order.

The Association's property shall not be removed other than in the ordinary course of the association's business or used other than for the association's purposes.

## **18. INSURANCES**

The Programme & Regeneration Manager shall effect all building insurance cover and the Finance & Investment Manager shall effect all non building insurance cover. They shall negotiate all claims, as appropriate, in consultation with other officers, where necessary.

Officers shall give prompt notification to the Programme & Regeneration Manager and the Finance & Investment Manager of all new risks, properties or vehicles (as appropriate) which require to be insured and of any alteration affecting existing insurance policies.

The Programme & Regeneration Manager shall hold a building claims register and produce a monthly status report to circulate to Management Team and Management Committee (or designated sub committee). All potential claims over £1,000 shall be notified to the Director and the Finance & Investment Manager.

The Finance & Investment Manager shall hold a non building claims register and produce quarterly status report to circulate to Management Team and Management Committee (or designated sub committee). All potential claims of over £1000 shall be notified to the Director.

It is the responsibility of all officers to notify the Finance & Investment Manager or Programme & Regeneration Manager (as appropriate) in writing, of any loss, liability or damage or any event likely to lead to a claim.

All employees of the association will be included in a suitable fidelity guarantee insurance policy.

The Finance & Investment Manager & Programme & Regeneration Manager shall annually review all insurances and notify the Management Committee that this has been done.

## **19. TREASURY MANAGEMENT**

The Association has separate Treasury Management Strategy, Policy and procedures.

The Finance & Investment Manager will monitor the performance of the above and be responsible for investment of short term cash deposits on the best possible terms.

The Finance & Investment Manager shall maintain records of all borrowings of money by the Association.

A record of all properties held by a lending institution as security for loan finance will be held along with a register of unencumbered property.

All funds and borrowings shall be effected in the name of the Association.

An annual Treasury Management Report will be provided to the Management Committee.

**End**