Financial Regulations

Registered Scottish Charity No: SC042551

Policy:	Financial Regulations
Date approved:	July 2020
Approved by:	IHA Board
Policy owner:	Head of Finance and Planning
Applicable to:	All staff and members of the Association
In consultation with:	Group Finance
Review date:	July 2021
Associated Documents:	Scheme of Delegation – Authorisation Limits

Contents

1 INTRODUCTION

The Rules of the Association together with the Standing Orders outline how the Association will be run.

The Association is committed to sound financial management in all aspects of its business. This includes conducting its affairs in a prudent manner and safeguarding its assets through the effective management of risk, ensuring robust internal controls operate, proactive treasury management and that a strong business planning and analysis capability is maintained, all under an appropriate governance framework including internal and external audit.

All of the above contribute to the overarching Finance goal of ensuring the Association has the "financial strength for business choices" and are drawn together in two policies Finance Regulations and the Treasury Policy. The Treasury Policy is in effect one of the many components of the Finance Regulations and as such this document contains references to the Treasury Policy and treasury matters. Rather than reproduce the considerable detail contained in the Treasury Policy in "Financial Directive 12: Treasury", FD12 acts to direct the reader to the Treasury Policy and Directives.

The Financial Regulations has the following elements:

- **Finance Fundamentals and Enablers** which set out the overarching principles by which finances are managed.
- **Financial Directives** (FDs) which describe the high level processes and controls.

The management of any business includes an element of risk. The Risk Management Policy sets out how the overall risk framework will operate. The Policies and Directives set out how financial risks will be managed and are an important element of the overall control framework.

The Board has ultimate control and is therefore responsible for ensuring the Association's financial and legal responsibilities are met and that the Association operates as economically and efficiently as possible within its overall objectives.

Although the Board is ultimately responsible for the regulation and control of the Associations finances, this is largely exercised through the Association's officers. Overall responsibility for the day to day financial management of the Association lies with the Head of Finance & Planning through the Managing Director.

In managing its finances, the Association has regard to the Scottish Housing Regulator regulatory standards and in particular those on financial well-being and decision making.

All staff and members of the Association are bound to adhere to the Regulations and to comply with all statutory obligations attached to them. The Managing Director must be informed in all cases of non-compliance. Breaches may be investigated under the internal disciplinary procedures.

As part of The Riverside Group Ltd, the Association will make best use of expertise and resources within Group. This includes, but may not be limited to, treasury management &

banking arrangements, corporate audit including internal audit and appointment of external auditor, finance systems, insurance, former tenant arrears collection, payroll processing and transaction processing.

A separate Treasury Management Policy will be maintained. This will be subject to regular review with any amendments requiring Board approval.

The Association delegates responsibility for the implementation and monitoring of its Finance Policies and Directives to the Managing Director. Other roles and responsibilities are set out below:

- The Board is ultimately accountable for the proper use of resources.
- The Audit & Risk Committee advises the Board on risk management and internal control. In addition, the Audit & Risk Committee monitors the performance of the internal and external auditors and the implementation of their recommendations.
- The Group Audit Committee oversees the process for selecting the external auditors. It makes recommendations on their ongoing re-appointment through the Board to the members/shareholders to consider at the AGM. The Group Audit Committee sets and monitors a policy on the engagement of the external auditors for non-audit assignments.
- Independent, objective assurance on the systems of internal control is provided by The Riverside Group Corporate Audit. Written reports are presented to the Audit & Risk Committee.

2 FINANCE FUNDAMENTALS AND ENABLERS

Finance's range of responsibilities can be explained by reference to the four finance fundamentals and two finance enablers:

2.1 <u>Finance Fundamental 1 – Compliance</u>

2.1.1 Group will, on behalf of the Association, comply with all statutory, regulatory and tax obligations and will not undertake ultra vires transactions.

2.1.2 The Group will, on behalf of the Association, maintain statutory accounting records in accordance with recognised accounting standards.

2.1.3 The Group Treasury function will manage loan funding and relationships with lenders on behalf of the Association. The Association will comply with all requirements imposed by specific loan agreements and treasury instruments.

2.1.4 The Group will provide access to all information and papers supporting the activities of the finance function to its auditors and those charged with regulatory reviews.

2.2 <u>Finance Fundamental 2 – Liquidity</u>

2.2.1 All monies in the hands of the Association will be under the control of the Managing Director.

2.2.2 The Group Treasury function will ensure the Association has adequate, though not excessive cash resources and borrowing arrangements to enable it at all times to have a level of funds available to it which are necessary for the achievement of its business objectives.

2.2.3 The Association will ensure that its liabilities will always be met when due and will ensure adequate liquidity is available at all times to meet unexpected expenditure requirements.

2.2.4 Cash flow projections will be prepared by the Group Treasury function on a regular and timely basis and the Head of Finance & Planning will ensure that these are adequate for the purpose of monitoring compliance with the Treasury Policy.

2.3 Finance Fundamental 3 – Safe Assets

2.3.1 The Association will direct its affairs in a prudent manner.

2.3.2 The Association will maintain a robust framework of internal financial controls.

2.3.3 The Group will maintain a Finance Manual setting out how controls and processes within the central services teams are operated.

2.3.4 The Association will appraise the risks and financial viability of all major investment opportunities.

2.3.5 The Association will maintain an effective internal audit function. The internal audit function will be provided by TRGL Corporate Audit.

2.3.6 The Association will maintain robust arrangements to prevent, detect and investigate fraud.

2.3.7 The Association will maintain whistleblowing arrangements for staff to raise legitimate concerns.

2.3.8 The Group will ensure that adequate insurances are in place on behalf of the Association.

2.3.9 The Association will preserve the capital value of its resources and minimise the risks associated with Treasury Management using only those instruments, methods and techniques approved in the Treasury Strategy and permitted by the rules.

2.4 Finance Fundamental 4 – Business Insight

2.4.1 The Association will prepare an annual budget and thirty year business plan for Board approval. The plan will prepared in line with TRGL timetable and will require subsequent approval by TRGL Board.

2.4.2 The business planning process will take full account of the external landscape to identify risks and opportunities including stress testing and scenario planning.

2.4.3 The Association will prepare regular management reporting on financial and treasury performance which will be scrutinised by senior management and the Board.

2.4.4 A programme of training and updates on financial matters will be maintained for Board members.

2.5 Finance Enablers 1 - People

2.5.1 The Association will maintain a commitment to the highest standards of integrity.

2.5.2 Staff with authority to commit the Association's resources or who have responsibility for finance and treasury processes will have the necessary skills and knowledge. This will be achieved through suitable recruitment, training and development and appraisal.

2.5.3 The Association will ensure clarity of staff responsibilities at all times.

2.6 Finance Enablers 2 – Technology

2.6.1 The Association will make use of Group finance systems.

2.6.2 The Group will review and enhance its systems on an ongoing basis.

2.6.3 The Group finance systems will be efficient and robust. Processes will be consistent in all parts of the Group unless there are clear business reasons for exceptions.

3 FINANCE DIRECTIVES

3.1 Financial Directive 1: Planning

3.1.1 The Association will produce, each year, a thirty year business plan and a detailed annual budget. These will consist of a statement of comprehensive income, a statement of financial position and a statement of cash flows together with narrative and key performance indicators.

3.1.2 Business plans will where appropriate, be prepared in line with assumptions approved by the Group Finance Committee.

3.1.3 The planning process usually takes place between September and March of each year and the timetable must be strictly adhered to.

3.1.4 As soon as any circumstances come to light that significantly impact on previously agreed business plans, these must be immediately notified to the Managing Director or Head of Finance & Planning.

3.2 Financial Directive 2: Accounting Policies

3.2.1 Accounting policies are approved by Board. The main accounting policies can be found in the latest Financial Statements, although these are not exhaustive.

3.2.2 Any proposed accounting treatment not specified in accounting policies should be discussed with the Managing Director or Head of Finance & Planning.

3.3 Financial Directive 3: Financial Accounting

3.3.1 Group will, on behalf of the Association maintain accounting records sufficient at all times to:

a. Identify assets and liabilities and hold on a register;
b. Ensure debts are paid when due;
c. Recognise and collect all income that is due, and
d. Provide regular reports on the financial position to senior managers, the Board and Statutory or Regulatory bodies.

3.3.2 These allow for the preparation, at any time, of financial statements, which give a true and fair view of both the results for the period prescribed and the net assets.

3.3.3 The financial statements must be prepared in compliance with all the relevant statutory and regulatory requirements, and in accordance with the approved accounting policies. These include:

- UK Generally Accepted Accounting Practice, including FRS102
- Co-operative and Community Benefit Societies Act 2014

- Housing (Scotland) Act 2014
- Registered Social Landlords Determination of Accounting Requirements 2019

3.3.4 The Association will respond to the information requirements of the regulator and ensure that all deadlines are met.

3.3.5 Group will, on behalf of the Association archive and retain financial information in accordance with legal and regulatory requirements.

3.3.6 Approval of the annual financial statements by Board follows a recommendation by the Audit & Risk Committee.

3.4 Financial Directive 4: Management Accounting

3.4.1 The Group Finance Business Partnering team together with Head of Finance & Planning will produce a detailed monthly performance report (MPR). This will consist of a statement of comprehensive income, a statement of financial position, capital expenditure, covenant compliance report, key performance indicators and explanation of variances and corrective actions.

3.4.2 All management accounts will comply with accounting policies.

3.5 Financial Directive 5: Responsibility through Delegation

3.5.1 The Association will maintain a Scheme of Delegation which will set out roles and responsibilities as well as agreed authorisation levels.

3.5.2 In all cases, delegated authority levels are subject to the necessary budget approval.

3.5.3 Authority to approve or make payments should not be granted to temporary members of staff without close supervision.

3.6 Financial Directive 6: Salaries, Wages and Pensions

3.6.1 The payroll function is wholly provided by Group Central Services.

3.6.2 No permanent staff appointments shall be made at Executive Team level or above without the prior approval of the Board.

3.6.3 Any permanent amendments made to the staff structure below Executive Team level will be reported to Board.

3.6.4 Delegated authority sets out financial authority levels for employees who can authorise salary payments.

3.7 Financial Directive 7: Payments for Goods and Services

3.7.1 Delegated authority sets out financial authority levels for employees who can commit to expenditure and authorise payments.

3.7.2 The Group Procurement Policy sets out how value for money will be achieved e.g. use of corporate contracts. It sets out how goods and services will be procured both to secure best value and also so that the procurement process is fair and transparent.

3.7.3 The Group Procurement Policy also sets out the necessary checks which must take place before new suppliers are approved. E.g. validation of bank details and subsequent amendments.

3.8 Financial Directive 8: Income

3.8.1 The Association will ensure that suitable controls are in place for the proper recording and accounting of all income receivable and its collection and banking.

3.8.2 Wherever practicable, cash handling must be minimised. Cash payments should only be taken in exceptional circumstances e.g. prior to court action.

3.8.3 Current tenant debt will only be written off where there are legislative reasons for doing so e.g. sequestration, protection via trust deed.

3.8.4 The central Former Tenant Arrears team will manage all former tenant debts on behalf of the Association.

3.8.5 Former tenant debt will be written off after one year. During the year a range of tracing techniques for all debt which are economic to recover will be utilised. Formers debts older than one year will be chased where there is a reasonable belief that the debt is collectable.

3.8.6 All debts written off will be reported to Board on an annual basis.

3.9 Financial Directive 9: Banking Arrangements

3.9.1 For day to day banking purposes, the Association will use bankers appointed by Group.

3.9.2 It may be necessary to open an account where the banker has not been appointed by Group. Where this is the case, officers will work with Treasury colleagues in Group. Approval from both the Association's Board and TRGL Board is required prior to the opening of any such bank account.

3.9.3 Day to day control of the banking arrangements will rest with Head of Finance & Planning through the Managing Director.

3.9.4 No payment is to be made from any bank account unless in accordance with the system of delegated authority.

3.9.5 The central Treasury function will ensure effective management of cash and loan resources on behalf of the Association.

3.10 Financial Directive 10: Insurance

3.10.1 The Association will be included within the Group insurance policies.

3.10.2 The Group Corporate Services Director, overseen by Group Board, is responsible for the appointment of insurers.

3.10.3 The Group Corporate Services Director will take appropriate advice to ensure that appropriate cover is secured.

3.11 Financial Directive 11: Assets

3.11.1 All assets must be acquired in accordance with the procurement policy, the development scheme appraisal procedure and the system of delegated authority. This is subject to budgetary provision.

3.11.2 An appropriate register of all properties owned by the Association will be kept by Group Central Services recording relevant property details.

3.11.3 Central Finance will maintain a register of other capital items such as office property, computer equipment etc. on behalf of the Association

3.11.4 Assets capitalised in the Statement of Financial Position are to be depreciated in line with policy. Social housing and other grant will be amortised in line with policy. An annual impairment review will be carried out.

3.11.5 All disposal of assets must be the best sale value, in accordance with delegated authority and the asset management strategy.

3.11.6 The rechargeable repairs policy sets out the arrangements to minimise the cost of damage to properties by tenants.

3.12 Financial Directive 12: Treasury

3.12.1 The Treasury function will be managed on behalf of the Association by the Group Treasury function.

3.12.2 The Treasury function will be managed in accordance with the Treasury Policy and Directives.

3.13 Finance Directive 13: Tax

3.13.1 Tax matters are managed in accordance with the Tax Statement of Principles. Tax matters are managed in accordance with the Group Tax strategy and Tax Policy.

3.14 Financial Directive 14: Audit

Internal Audit

3.14.1 The Group Corporate Audit function will provide independent, objective assurance on the system of internal controls. This will help bring a systematic, disciplined approach to evaluate the effectiveness of risk management, control and governance.

3.14.2 An annual risk-based audit strategy will be approved by the Audit & Risk Committee.

3.14.3 Issues raised as a result of an audit will be reported to management. Regular follow up will take place until agreed management actions are completed. The main findings are reported to the Audit & Risk Committee.

3.14.4 Corporate Audit are authorised to:

- Have unrestricted access to all functions, records, property and personnel;
- Have full and free access to the Audit & Risk Committee;
- Obtain the necessary assistance of staff within the Association where they perform audits, as well as specialised services from within or outside Group.

3.14.5 Corporate Audit will maintain professional audit staff with sufficient knowledge and skills. Corporate Audit will undertake its work in accordance with appropriate professional standards, such as those laid out by the Institute of Internal Auditors.

External Audit

3.14.6 The Group Audit Committee will appoint and monitor the performance of the external auditors.

3.15 Financial Directive 15: Company Secretarial

3.15.1 The Board, together with senior management will ensure that the company is operating within its permitted boundaries as laid down in the Rules, or memorandum and articles of association.

3.16 Financial Directive 16: Anti-Fraud

3.16.1 The Association is committed to the prevention of fraud.

3.16.2 The Managing Director is responsible for the establishment and promotion of an anti-fraud culture and is further responsible for the establishment of systems of control that assist in the prevention of fraud. Day to day operation and management of these systems is the responsibility of Managers.

3.16.3 Managers must make themselves aware of the risks involved in the operations for which they are responsible, ensuring that these are regularly reviewed to satisfy themselves that their systems continue to operate effectively.

3.16.4 Through the Managing Director, the Director of Internal Audit and Risk must be informed of all suspected frauds and will be responsible for investigating major frauds.

3.16.5 Managers are required to report all actual or attempted fraud in the quarterly fraud and loss return submitted to Corporate Audit.

3.16.6 All staff will act honestly with integrity and safeguard the resources for which they are responsible.

3.16.7 All staff, particularly those with specifically delegated responsibilities, are responsible for ensuring that the established systems of control are operated in practice. It is the duty of all staff to protect the Association's assets, this includes information and goodwill as well as property.

3.16.8 Staff will play a key part in the prevention of fraud, especially through reporting of suspected fraud. A whistleblowing procedure is in place in the interests of staff raising legitimate concerns.

3.16.9 Any report of suspected fraud will be treated seriously and investigated to establish whether there is any substance to their claims. The Fraud Response Plan sets out how any cases of actual or suspected irregularity will be investigated.

3.16.10 Consideration will also be given to the requirements of the UK's Anti-Money Laundering regime. Whilst as a Housing Association, the Association falls outside the financial services sector regulation and therefore outside the scope of the anti-money laundering regime, all businesses should be aware of the money laundering provisions of the Proceeds of Crime Act.