This document provides examples only. Organisations should develop their own templates to relate to their working practices
“Governance is a set of policies, roles, responsibilities and processes that set the way an organisation is directed, administrated and controlled”

“Compliance is either a state of being in accordance with established guidelines, specifications, or legislation or the process of becoming so”

In an increasing competitive world, voluntary and community organisations have to ‘step up’ their game to become quality organisations and more and more VCOs undergo quality marks assessment.

Having systems in place to ensure efficient governing is the foundation of any well-run establishment and essential to withstand any scrutiny, be it from its Trustees/Directors, service users, funding bodies or other external assessors. The performance of any organisation can be developed through the application of the correct procedures and compliance of established guidelines.

In this section of the Toolkit we have guidance and templates on Financial Management and Managing ESF to help you develop your own bespoke policies.
This document provides examples only. Organisations should develop their own templates to relate to their working practices.
1. **Good Governance**

Governance means the way your organisation is set up and run. It is partly about the procedures, policies, documents and management arrangements you have in place for the way you administer and control your organisation, including its finances and delivery of what it has been set up to achieve. It is also about your organisation’s relationships with the stakeholders and the aims and objectives of your organisation. The main stakeholders will include trustees, people and groups who use your services and activities, directors and employees. Other stakeholders include professional services, banks, regulators and the community at large.

It is important for organisations to have good governance, to ensure funders can trust that you will deliver projects effectively and that their money will be used to help its intended beneficiaries. If you do not have the governance structure to deliver the outcomes, then the real benefits will not be felt.

Funders are not asking for any additional governance arrangements than those already required by Charity or Company law or that a well set up organisation will have. They are seeking reassurance that an organisation has sufficiently sound governance to enable them to concentrate upon the delivery of what the organisation has been set up to achieve, which includes the projects they will be funding.

**Principles of Good Governance:**

- Everyone understands the part they play in achieving success for the organisation
- There is a strong collective understanding of purpose, direction and priorities
- Resources are well targeted
- Risks are assessed and where undertaken are calculated
- Information flow enables decision making
- There are good relationships with external stakeholders
- There is a focus on long term impact not simply short term outputs

**For a practical and easy-to-use guide on the Code of Governance go to:**

http://www.charity-commission.gov.uk/Charity_requirements_guidance/Charity_governance/Good_governance/governancecode.aspx
2. Financial Management Handbook Template

1. General Responsibilities and Accountabilities

1.1 The Board is collectively responsible for the overall direction of the company and its strategic management. This involves determining the guiding principles and value system within which the company operates. This handbook sets out the framework for financial management within … which is designed to increase the company's accountability, through a system of checks and balances.

1.2 The Board must review the effectiveness of internal controls at least annually.

1.3 The Board must establish a Finance and Audit Committee of at least 3 members - at least one of the members must have recent relevant financial experience.

1.4 The Finance and Audit Committee is responsible for monitoring the integrity of the company’s financial reporting, reviewing the management of risks and setting the maximum level of matching funding the company can provide in an accounting period. The managing Director is responsible for negotiating and authorising the matching funding provided by…

1.5 The Board has the responsibility for setting financial priorities, and Executive Team for ensuring the financial plans are managed effectively.

1.6 The Finance Director (FD) is responsible for ensuring that the company meets all its statutory obligations and, through the Managing Director, complies with the financial and reporting regulations of funding bodies.

1.7 The Finance Manager (Structural Funds) is responsible for providing the Executive Team with up-to-date advice on current funding bodies’ regulations on claims and other relevant funding requirements.

1.8 The roles and responsibilities of the Board, its committees, the Executive Team, and other staff in relation to financial decision-making and administration must be set out in writing.

1.9 The Executive Team are responsible for ensuring that their programme and project managers (including associates) have the required competencies to manage projects on behalf of the company, and a full understanding of project funding and audit requirements.

1.10 The Executive Team must observe the financial limits of delegated authority which are established and reviewed by the Board annually.

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1.11 Minutes must be taken of all meetings of the Board and its committees including all decisions and by whom action is to be taken.

1.12 The Board must establish a register of business interests of Directors, the Executive Team and any other staff members who influence financial decisions.

2. Financial planning

2.1 The Board is responsible for setting the budgets which show how resources are allocated and provide a mechanism for monitoring expenditure through the year. The process for this approval is set out in the company’s governance paper.

2.2 Any new initiatives and capital expenditure must be carefully appraised in relation to all likely costs and benefits and their financial sustainability before being approved by the Board.

2.3 The Managing Director is responsible for drawing up a formal timetable for constructing the Financial Plans to ensure that the Board has time to consider all relevant factors before approval by the Board in March each year.

2.4 The Finance Team and the FD must forecast cash flow to take account of likely spending patterns, and present this alongside budgets at the Board meeting.

3. Financial monitoring

3.1 The Executive Team must ensure that there is regular monitoring of income and expenditure against the agreed budgets.

3.2 Where budgets are devolved, all budget holders are responsible for the careful monitoring of their respective budgets, reporting all significant variations to the Executive Team. All budget holders must obtain (from FD) regular reports and review at least monthly, using systems that are available, comparing the amount spent or committed to date against their budgets. They must produce monitoring reports and proposed plans of action to tackle any significant variances. These reports must be reviewed by the Executive Team and key changes reported to the Board.

3.3 The Managing Director must present to the Board monthly management accounts and reports. These reports must include sums committed but not yet paid and outturn forecasts. They must also show any significant variances against the budget with explanatory notes and, where necessary, remedial action plans.

This document provides examples only. Organisations should develop their own templates to relate to their working practices.
4. Purchasing

4.1 The company must always consider price, quality and fitness for purpose when purchasing goods or services.

4.2 The Executive Team must ensure that European Community rules on procurement apply to contracts that are financed or part financed by Structural Funds grants as follows:

<table>
<thead>
<tr>
<th>Estimated Value</th>
<th>Tender Action Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below £250</td>
<td>No quote required</td>
</tr>
<tr>
<td>£250 up to £500</td>
<td>Single oral tender</td>
</tr>
<tr>
<td>£501 up to £5,000</td>
<td>Minimum of 2 oral quotes</td>
</tr>
<tr>
<td>£5,001 up to £15,000</td>
<td>Minimum of 3 written quotes, based on a clear written specification of requirement</td>
</tr>
<tr>
<td>£15,001 up to £50,000</td>
<td>Normally a minimum of 3 formal competitive tenders</td>
</tr>
<tr>
<td>£50,001 and over</td>
<td>Normally 4 to 6 formal competitive tenders</td>
</tr>
</tbody>
</table>

4.3 For regular purchases, the company operates a register of associates/partners and a list of preferred suppliers. The engagement of associates/partners is governed by the Associate Engagement Procedure.

4.4 Three written quotations must be obtained for all non EU capital expenditure above a predetermined limit of £10,000 unless it is impracticable to do so. In such circumstances, the reasons for not doing so must be reported to the Managing Director.

4.5 Where a quotation other than the lowest is accepted, the reasons for this decision must be reported to the respective Executive Director and included in the minutes of the relevant meeting.

4.6 Contract specifications must define the service to be provided in terms of its nature, quality standards, information and monitoring requirements and contract review procedures.

4.7 Pre-numbered purchase orders must be used for all goods and services except utilities, rents, rates and petty cash payments. Where urgency requires an oral order, this must be confirmed by a written order.

4.8 Orders must be used only for goods and services provided to the company. Individuals must not use official orders to obtain goods or services for their private use.

This document provides examples only. Organisations should develop their own templates to relate to their working practices.
4.9 All orders must be signed by a member of staff approved by the respective Executive Director or delegated signatory.

4.10 The signatory of the order must be satisfied that the goods or services ordered are appropriate and needed, that there is adequate budgetary provision and that quotations or tenders have been obtained if necessary. Any overspend must be approved at the appropriate level before a commitment is made.

4.11 When an order is placed, the estimated cost must be committed against the appropriate budget allocation so that it features in subsequent budget monitoring. The relevant coding and SLA number must be clearly stated in the Purchase order sheet.

4.12 The company must check goods and services on receipt to ensure they match the order and the delivery note/evidence sheet must be marked accordingly. This must not be done by the person who signed the order.

4.13 Payment must be made within time limits specified in Terms and Conditions of the contract for the payment of debts and only when a proper invoice has been received, checked, coded and certified for payment.

4.14 Executive Team are responsible for certifying invoices for payment. Where they devolve this activity to other staff, the person certifying an invoice for payment must be neither the person who signed the order nor the person who checked the receipt of goods or services.

4.15 The person authorising the invoice must check and ensure that the document is an invoice (i.e. not a quotation/order, etc) and check that payment is in accordance with the underlying contract. Once satisfied that the invoice may be released for payment, signatories should check the coding, sign in the authorization box and send documents to the Finance Department.

Please note that invoices that do not state the SLA agreement, PO number or project/contract name will be sent back to the supplier immediately.

4.16 The use of copy, faxed or e-mailed invoices increases the risk of duplicate payments and should be avoided wherever possible. In addition, copy invoices will cause delay whilst checks are made to ensure that the original has not been already paid.

4.17 The FD must maintain a list of staff authorised to certify invoices for payment and including authorisation levels. The limits are currently as follows:

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4.19 The Executive Team have delegated authority to negotiate appropriate terms and conditions with partner organisations as well as forming consortium bids.

4.20 The Executive Team are responsible for determining appropriate terms and conditions for sub-contracting to other organisations, the registration and engagement of associates and the management of these relationships.

5. Income

5.1 The MD and FD are responsible for establishing the company’s charging policy for the supply of services. This policy must be reviewed annually and presented to the Board for approval.

5.2 Staff responsible for developing tenders, bids or proposals must seek guidance from the Managing Director or FD on the prevailing charging policy.

5.3 Proper records must be kept of all income due.

5.4 The Finance Team must always issue official, pre-numbered invoices or maintain other formal documentation (e.g. claims) for all income collected. These must be securely stored in order.

5.5 Cash and cheques must be locked away to safeguard against loss or theft.

5.6 The Finance Team must chase any invoices which have not been paid within 30 days or the terms as stated on the invoice and update the Project managers accordingly.

6. Financial controls

6.1 The company has several systems for processing and recording financial transactions. These extend from petty cash to purchasing, through payroll and contracting services to income collection systems. These systems have been designed to protect the company’s resources from loss or fraud. They also provide information to staff and the Board about how the money is being spent, and guide the Executive Team and Board in their decision-making. Accuracy is, therefore, essential.

6.2 The following internal financial controls are intended to make the Board and staff feel confident that transactions will be properly processed and that any errors or fraud will be detected quickly. They must be observed by all staff.

Examples of internal controls are:

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internal checks – one person checking another person’s work;

separation of duties – distributing the work so that key tasks are assigned to separate members of staff;

systems manuals – clear, readable descriptions of how systems work and who does what;

a system of authorisations – each transaction is authorised before passing on to the next stage of the process;

an audit trail – this tracks all stages of a transaction, for example from copy order to invoice, to accounts, to payment, and in reverse.

6.3 These controls are there to safeguard staff and Board alike. They ensure that:

- Only goods/services that are required by the company are ordered;
- payments are made only to bona-fide employees and suppliers;
- payments are made only for goods and services actually received;
- cash transactions, whether income or petty cash expenditure, are secure in all respects.

6.4 As a minimum, documents and computer files must not be destroyed before three years after the final payment of the programme.

6.5 The FD must ensure that the company has written descriptions of all its financial systems and procedures. These must be kept up to date and all appropriate staff must be trained in their use.

6.6 The Executive Team must ensure that financial control is maintained in their respective divisions.

6.7 The FD must ensure that duties related to financial administration are distributed so that at least two people are involved. The work of one must act as a check on the work of the other and all checks must be fully documented.

6.8 The Finance Team must maintain proper accounting records and retain all documents relating to financial transactions for at least the period recommended by the funding bodies and other institutions. All staff must retain all relevant documents for at least the period recommended by the funding bodies as follows:

<table>
<thead>
<tr>
<th>Funding Body</th>
<th>Retain for</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Social Fund</td>
<td>15 years</td>
</tr>
<tr>
<td>European Regional Development Fund</td>
<td>15 years</td>
</tr>
<tr>
<td>London Development Agency</td>
<td>10 years</td>
</tr>
</tbody>
</table>

This document provides examples only. Organisations should develop their own templates to relate to their working practices.
<table>
<thead>
<tr>
<th>Other Regional Development Agencies</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Learning and Skills Councils</td>
<td>10 years</td>
</tr>
<tr>
<td>Government Office for London</td>
<td>10 years</td>
</tr>
<tr>
<td>Others</td>
<td>As per contract</td>
</tr>
<tr>
<td>HMRC</td>
<td>7 years after year end</td>
</tr>
</tbody>
</table>

6.9 All financial transactions must be traceable from original documentation to accounting records, and vice versa.

6.10 Any alterations to original documents such as cheques, invoices and orders must be clearly made in ink or other permanent form, and initialled and dated.

6.11 All accounting records must be securely retained when not in use and only authorised staff must be permitted access.

6.12 The Executive Team must ensure that all expenditure from sources of earmarked funding is accounted for separately and that the funding is used for its intended purpose.

6.13 Programme and Project Managers must ensure that all partners' evidence required for audit is obtained during the life of the project and placed on the project file.

6.14 The company has an archiving policy which covers both digital and hard copy filing. All staff must observe this policy.

7. Banking

7.1 The Finance Team must obtain bank statements at least weekly and these must be reconciled with their accounting records. Any discrepancies must be investigated promptly and reported on to the FD.

7.2 All bank reconciliations must be signed by the person performing the reconciliation. They must also be reviewed and countersigned by the FD.

7.3 All funds surplus to immediate requirements must be invested to optimal effect.

7.4 Individuals must not use their private bank accounts for any payment or receipt related to the company’s income.

7.5 All cheques must bear the signatures of the authorised signatories and must be within the limits set by the Board as follows:

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treatment of income for VAT purposes. This will include an assessment of each contract and the rationale for the VAT status reached.

11.2 The FD must ensure that both input and output VAT are treated according to the HM Revenue and Customs regulations.

11.3 The FD and the Managing Director must ensure that all interpretations on VAT (output and input) are in line with HM revenue and Customs the relevant guidance notices and/or other relevant documentation.

12. Assets, security and insurance

12.1 The ICT Manager and the FD are responsible for ensuring the security of the company’s non-cash assets.

12.2 The FD is responsible for the compilation, management and review of the company’s fixed assets register.

12.3 The FD must inform all relevant staff of the company’s threshold below which inclusion in the inventory is not necessary.

12.4 The FD must ensure that there are systems in place to ensure the security of non-cash assets.

12.5 The FD must be consulted for technical advice on capital purchases, write-offs and disposals of obsolete equipment. The Managing Director must authorise all capital purchases, write-offs and disposals of obsolete equipment in accordance with the funding body’s regulations, where appropriate.

12.6 Safes and similar deposits must be kept locked and the keys removed and held by authorised staff.

12.7 The Managing Director must review all risks annually to ensure that the sums insured are commensurate with the risks.

12.8 The FD must notify its insurers of all new risks, equipment and other items which require insurance or of any other alteration affecting existing insurance.

12.9 In the event of a financial claim against the company, staff must not give any assurance to a third party without the written consent of its insurers. All such claims should be reported to an Executive Director without delay.

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12.10 The FD must immediately inform its insurers, of losses and other incidents that may give rise to an insurance claim.

12.11 Current certificates of employers liability insurance must be displayed at each of the company’s places of business and also each issue must be retained for a period of 40 years.

13. Data Protection

13.1 The company is fully reliant on computers to process and record personal, financial and and other management data. Most of the controls in this section relate to financial risks resulting from inappropriate access to data held on computers and the potential loss of data. It is important that company data is properly protected from unauthorised access and that it is backed-up regularly.

13.2 The Managing Director must ensure that the company has a robust disaster recovery plan. The ICT Manager is responsible for devising and updating the IT disaster recovery plan.

13.3 The ICT Manager must ensure that data is backed up regularly and that all back-ups are securely held in a fireproof location, preferably off-site.

13.4 The FD must establish from time to time that the recovery plan in place ensures continuity of financial administration in the case of emergency.

13.5 The ICT Manager must ensure that systems are in place to safeguard company software and data against computer viruses.

14. Risk Management

14.1 As part of the business planning process, the Managing Director must present a risk management plan. The plan must identify all known and predictable risks and the proposed mitigating strategies.

14.2 The Executive Team must identify project risks and constraints particularly around budgets, schedules and client expectations and develop contingency plans for addressing these.

14.3 The HR Manager must undertake periodic health and safety, fire and employment law risk assessments as stipulated by the relevant legislations. A report must be submitted to the Finance and Audit Committee once a year.

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14.4 The ICT Manager must undertake periodic reviews of the company’s IT security and disaster recovery policy to ensure that risks are minimised.

14.5 The FD must undertake periodic reviews of the company’s accounting procedures to ensure the integrity of the financial systems and accounting principles.
3. ESF Financial Requirements

It is an ESF requirement for all organisations to show they have sound financial management procedures in place. The ESF application forms have a financial section, which generally cover (but are not limited to) the following ‘gateway questions’:

1. Has your business met the terms of its banking facilities and loan agreements during the last year?
2. Has your organisation met all its obligations to pay its creditors and staff during the past year?
3. Is your organisation or any of its directors/partners/proprietors in a state of bankruptcy, insolvency, compulsory winding up, receivership, composition with creditors, or subject to relevant proceedings?

They also often ask for specific financial details:

The lead organisation should submit their latest 2 years audited accounts signed and verified by the organisation’s Chief Finance Officer or equivalent. These can be supplied as hard copies or scanned electronic copies. They should also meet the following standards:

- Accounts should also be signed by external auditors if applicable (Charities Commission requirement). If not applicable to be signed by external auditors the accounts should be certified by the organisations external accountant.
- Organisations that are not required to have an audited financial statement should supply accounts as submitted to the Inland Revenue, other regulatory bodies, or their bank.
- Full financial accounts must be submitted, not abbreviated versions and they must include the following information:
  a) balance sheet;
  b) profit and loss account (not abbreviated);
  c) full notes to the accounts;
  d) directors’ report;
  e) auditor’s report (if audited – if not the accounts must be signed by an independent and qualified accountant);
  f) if the accounts submitted are for a year that ended more than 10 months ago, please confirm that the business is still trading and provide a statement of turnover since the last set of published accounts.

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Financial viability & Assessment

The overall scoring used in the financial risk assessment consists of a framework against which the submitted financial accounts of the applicant are analysed alongside external checks including an Experian Credit report and Charity Commissions records (if applicable). In order to complete the assessment, the latest 2 years financial statements of the organisation are required. If the two years accounts are not available further information will be requested.

The detailed evaluation is partly completed using a financial tool with pre-determined financial criteria based on several key financial ratios which include:

- Liquidity (Current Asset/Current Liability)
- Return on Capital Employed (pre-tax profit/capital employed)
- Gearing (shareholders funds/total funding)
- Profit Margin (pre-tax net profit/turnover)
- Debtor Days and Creditor days.

The ratios only form part of the assessment and other financial assessments and specifications are made as set out below:

As a guide, here is information supplied by the LDA for their ESF Round in 2009 (subject to change for future ESF rounds):

Assessment of Turnover
To minimise risk to both the LDA and the applicant the LDA will not fund any one single organisation in any one financial year more than 50% of the turnover stated in the applicant's latest finalised and signed off set of financial statements. If funding is being sought over several years then the turnover figure in the latest finalised and signed off set of financial statements will be used as the base figure.

If an applicant is part way through a financial year they can provide documents that can substantiate the turnover in the current year by bank statements and management accounts which will be assessed but the overall financial information will determine the final decision.

The maximum contract that the LDA can engage with any one applicant is noted and cross referenced to any existing funding that may be in place. This allows the LDA to gauge its level of exposure in any one applicant. If an applicant is already under contract with the Agency and the level of grant applied for takes them over the 50% threshold then the applicant will be rejected.

Multiple Applications
Where one organisation has several applications shortlisted for funding, the results of the financial due diligence may determine the number and value of their applications that can go through to the moderation panel, particularly where funding of multiple projects would take the organisation over the permitted grant to turnover threshold.

Net Worth
The Agency will also analyse the Net Worth of the applicant’s organisation to ensure the total assets are greater than its total liabilities. The check is also to ensure that where

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organisations have intangible assets such as good will, that if these are removed from the balance sheet the organisation will still has a positive net worth.

**Working Capital**

Working Capital will also be analysed to ensure that organisations have sufficient working capital to trade and also to ensure that the current liabilities are not more than the current assets.

Where **negative working capital** is evident the LDA will require information on why this has occurred to ascertain if the position is due to the following reasons: delayed receipt of a grant or guaranteed income; or because they have liabilities which if not paid will result in the applicant’s cease of trade such as tax and bank loans.

Reserves of the applicants will be analysed to ensure there are sufficient reserves to trade for a minimum of 3 months. If an applicant is a charity we will also analyse the reserve policy as submitted to the charities commission to ensure they are adhering to this.

**Experian Credit Rating System**

Further additional checks are undertaken by the use of an external credit rating system called Experian which gives a general rating of the financial strength of the organisation as well as their credit risk status. Details of any possible Director Disqualifications, County Court Judgements and mortgages on properties owned are also provided as part of this report.

**Checks on Charities**

For applicants with a charitable status, the applicant’s details will be checked against those held at on the Charity Commission’s website. Checks are undertaken to ensure that the applicant indeed holds charity status, that all documents requested by the Charity’s Commission have been submitted on time and that the Charity Status has not placed their status as a concern.

**Parent Companies**

Applicants which have an Ultimate Parent Company must have in writing from the Parent Company that they will provide a parent guarantee for the applicant. Also the Parent Company must submit exactly the same financial information as the Applicant and this information will be assessed in the same manner as the applicant therefore allowing the Agency to ensure the strength of the Parent Company and the guarantee it is binding itself to.

**Insurance**

Details on the value and expiry date of Public, Employers and Professional Insurance are also checked to ensure they meet the requirements of the Agency.

**Assessment of Turnover**

The LDA will initially review the consolidated financial summary to ensure that the grant applied for is not more than 50% of the consolidated turnover figure. **If it is above 50% the application will be rejected.**

If a member of the consortium is part way through a financial year they can provide documents that can substantiate the turnover in the current year by bank statements and

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management accounts which will be assessed but the overall financial information will determine the final decision.

**Risk Assessments**
Following this check being successfully passed then all members of the consortium will be subject to exactly the same financial risk assessments undertaken in Option 1 which is set out above.

**Assessment Results**
It must be noted that with consortium applications all results of the individual’s members of the consortium financial assessments will be available to each member. The LDA will take a decision on the overall financial risk posed by the consortium of organisations and take a final decision on whether to award funding to the consortium.

Please note that if a consortium is unsuccessful due to one or more consortium members not passing the LDA financial evaluation then there will **be no opportunity for the consortium to change partners.** This would pose a significant change to the application and require the bid to be re-scored which would delay the delivery of the LDA ESF Programme.