

# Transportforall

Accessible transport is our right

## Community Transport Operations Manual for London

An essential guide for  
community transport  
operators



**cta**  
consultancy

CTA Trading Limited

**LONDON  
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# Introduction

This financial section has been developed to assist Community Transport organisations to improve financial management. It is essential for any organisation to have clearly defined policies and procedures that enables it to prevent financial loss or fraud and to ensure both funder and member confidence.

This section of the CT Operations manual will reinforce existing financial procedures and introduce new ones. It can be used as a checklist for all new Operations Managers or Board members.

It is important that the organisation has clearly defined financial policies that address the following areas contained in this document.

- **Financial Roles:** It is necessary to ensure that the organisation is very clear about the levels of financial responsibility and delegation, and is specific about who has responsibility for each procedure.
- **Income and receipts:** As an organisation it must ensure that all receipts are correctly collected, identified, recorded and banked. The system employed should seek to minimise physical or fraudulent losses.
- **Expenditure and Payments:** All payments within an organisation need to follow the correct procedures. Clear policies on the following need to be developed and adhered to:
  - Cheque Journals
  - Petty Cash
  - Procurement/Ordering Goods
  - Expenses and Travel Claims
  - Payment Authorisation
- **Full Cost Recovery:** As an organisation, it is necessary to be able to recover the appropriate organisational costs of specific projects or services, and be able to identify and proportion all costs incurred in their delivery.
- **Salaries and Wages:** Salaries and wages account for a large proportion of any organisations running costs and unfortunately are traditionally one of the areas of expenditure with the least controls. It is important that the organisation has adequately trained staff providing this important role and that the segregation of duties is clearly defined. Contracts of employment must be in place with clear and concise terms and conditions and agreed job descriptions.
- **Bank Accounts:** Good management of the organisation's bank accounts is essential in order for it to remain financially stable. It is crucial in preventing possible loss or even fraud.
- **Bank Reconciliation:** Bank reconciliation is considered the single most important control within an organisation as an absence of this can result in serious implications, especially with core funders.
- **Management Reports:** It is important that the Board receives regular financial reports as they have overall financial responsibility for the

organisation's finances. The Board must set income and expenditure budgets and ensure these are adhered to with regular updates from the Operations Manager or finance sub-committee.

- TAX: Many CT organisations are registered Charities and are registered for VAT. It is essential that the organisation is aware of the VAT implications on the goods and services that are procured and supplied.
- Reserves: It is important that the organisation has a Reserves policy that allows for any future unforeseen financial shortfalls or liabilities. Even when an organisation operates in the most stable of environments, where future income streams and expenditure requirements can be identified It is considered good practice for an organisation to seek to build some financial reserves, which will allow them to meet future commitments or unforeseen expenses.
- The organisation's fraud policy should underline the commitment to the prevention of fraud not only within the organisation, but also in relation to all interactions with other companies they deal with. It is essential that all the staff and sub-contractors are aware of the organisation's anti-fraud policy and know what the responsibilities are in relation to combating fraud.
- Vehicle Operating Costs: Calculating the cost per mile of the vehicles will allow the organisation to identify which of the fleet vehicles are the most efficient. If trends are compared on the same vehicle, it will show if the vehicle is becoming too expensive to run indicating that a replacement may have to be considered/needed.
- Leasing Property: It is important to remember that leasing the premises that the organisation operates from will constitute a significant expenditure. It is important to view the renewal of or new property leases procurement, as it should be treated as same.

# Financial Roles

It is important that the internal financial procedures document is very clear about the levels of responsibility and delegation, and is specific about who has responsibility for each procedure.

## 1. The Role of the Board

The Board members have responsibility under the Companies Acts to ensure that proper books and records are kept. The Board must be satisfied that their organisation has suitable procedures in place to ensure that the finances are managed adequately.

The Board is responsible for:

- Approving the budget for the year
- Approving signatories to the bank accounts
- Appointments of staff
- Setting staff salaries
- Receiving reports from the Operations Manager / Finance sub-committee on areas of concern
- Approving exceptional items of expenditure
- Monitoring the financial position based on monthly reports, with advice from the Operations Manager
- Approving the annual accounts, auditors report and appointment

It is recommended that management accounts are presented to the Board on a monthly basis.

## 2. The Role of the Finance Sub Committee

Where possible the Board should establish a Finance or Administration sub-committee to which the detailed monitoring of finances are delegated. The functions of the sub-committee and the limits of their authority should be defined in the terms of reference and all sub-committees should minute all proceedings and report back to the Board regularly with details of their decisions.

The Finance subcommittee has responsibility for financial oversight and ensuring that the organisation complies with agreed financial procedures. The Finance Committee should receive monthly snapshots and monthly management's accounts and are responsible for reviewing finances thoroughly at its scheduled meetings.

## 3. The Role of the Treasurer

The Treasurer works in close co-operation with, and provides support and advice to the Operations Manager.

Specific responsibilities are to:

- Guide and advise the Board in the approval of budgets, accounts and financial statements, within a relevant policy framework.
- Keep the Board informed about its financial duties and responsibilities.

- Advise the Board on the financial implications of the organisation's strategic plans and key assumptions included in management's operational plan and annual budget.
- Confirm that the financial resources of the organisation meet present and future needs.
- Understand the accounting procedures and key internal controls, so as to be able to assure the Board of the organisation's financial integrity.
- Ensure that the accounts are properly audited, that accepted recommendations of the auditors are implemented, and meets the auditor at least once a year.
- Formally present the accounts at the AGM, drawing attention to important points.
- Monitor the organisation's investment activity and ensure its consistency with policies, aims, objectives and legal responsibilities.

#### **4. Role of the Operations Manager**

The Operations Manager is the lead person for processing all agreed changes, and will assist the Treasurer in any financial matter connected with the organisation.

The Operations Manager will ensure that adequate security precautions are taken to safeguard financial and other assets in accordance with the organisation's anti-fraud policy.

# Income and Receipts

**Note:**

*All financial loss is due to fraud – error and inexperience can cost the organisation money.*

The organisation must ensure that all receipts are correctly collected, identified, recorded and banked. The system employed should seek to minimise physical or fraudulent losses by addressing the following 4 areas:

## 1. Cash/Cheques Received– Controls

- Lodge all receipts within 2 days of physical receipt as this cuts down the risk of loss and removes the risk of theft.
- Store all receipts in a safe prior to banking. Cheques and cash should be kept in a locked safe which only key personnel should have access to. The CT should maintain a list of all current key holders. Also check the insurance policies; there may be a limit on the amount of cash or received cheques that can be kept on the premises. It is also important that unopened mail is stored securely as it may contain cheques/cash.
- Note that same person should not receive cash/cheques onto premises as well as do the banking. This may be difficult in some smaller organisations but should be enforced where possible. This will reduce the risk of loss as it will require collusion between two members of staff as opposed to one.
- Bank cash 'gross'. It is important that all cash receipts are banked intact. There are more chances of balances not matching up and difficulty in accounting for transactions if cash is used to pay for expenditure items.
- Staff safety when lodging cash. It is good practice to regularly look at how/who/when to lodge cash. Use different procedures dependent upon size of cash lodgements.

## 2. Cash Receipts Book

It is important that familiarisation is made with what each column is showing in the cash receipt book and remember that the book is still necessary even if Sage is being used, as it is a vital input to bank reconciliation. All cash and cheques should be logged in one book under the following headings:

- i. Date of receipt
- ii. Organisation or person received from
- iii. Value
- iv. Lodgement reference
- v. Analysis column

It is important that the management of a CT organisation examines the cash receipts book on a regular basis in order to minimise the risk of fraud or error. Simple audit-type checks can be carried out such as:

- Ensure that the records of cash and cheques received agree with bank paying-in slips; check a sample of lodgement as per cash receipts book to the lodgement slips on the lodgement book – check for differences or for obvious alterations.
- Confirm that the paying-in slips equate with the bank statements, both in

terms of the amount banked and date of credit; the logical next step is then to follow the lodgement through to the bank statement, looking for signs of any differences and looking to see that lodgements are timely – also remember to check dates.

- Determine whether or not all transfers or other direct payments into the bank can be identified and verified against paperwork. Some customers and funders will pay via BACS. Ensure quickly that amounts from funders correspond to claims and that payments from customers are recorded in the accounting system. Time should not be wasted chasing customers for payments already received.

### **3. Cash Handling**

Undoubtedly, the handling of cash is a high risk area for any business and despite this most organisations still fail to put adequate procedures in place. In order to reduce the risks associated with handling cash the following areas should be addressed.

- a. Drivers handling cash: Ideally drivers should avoid handling cash and wherever possible all fares should be collected in advance at the office or invoiced to the customer. This reduces the risk of fraud and more importantly reduces the personal risk to drivers.
- b. In situations where the driver has to receive fares it is important that each driver is given a cash/receipt book and that when the money is presented to the office that it should be counted and verified by 2 parties. Again this may be difficult in smaller organisations but should be implemented where possible in order to protect both parties in the event of a dispute.
- c. As mentioned earlier, the cash should immediately be locked in the safe, access to the safe should be restricted and the cash lodged as soon as possible. Remember again to consider the safety of staff lodging cash and make sure the insurance policies are adequate for storing cash overnight on the premises.

### **4. Customer Invoicing**

When it comes to invoicing the customer it is important to remember the following:

- Ensure that invoices are generated promptly as this cuts down on the timeline to receiving cash which is vital to keeping the organisation running. It is not necessary to invoice at end of each month and remember that if invoicing a larger amount, it may be better to agree a staged payment structure in order to help with cash flow. Simple things, such as ensuring that the organisation has the full contact details of their customer or that public sector customers have provided purchase order numbers, can all speed up the payment cycle.
- Consider taking up references for new customers before offering credit terms despite their size and a simple call to 2 referees can quickly show whether the client is good at paying bills on time.
- Payment terms should be clearly stated and all debts followed up promptly irrespective of the size of the bill. Generally businesses expect to be given 30 days from when they receive invoice to pay but this could be 60 days after a service was provided before payment is due. In the meantime fuel,

wages, maintenance, etc. has been paid for. Only after this can the customer be pursued for payment which may take some time, so follow up invoices promptly and make customers aware of payment terms. Address consistent late payers as they may potentially affect cash flow management and try to avoid bad debt. Failure to do so could result in suspension of service to the member.

**Note:**

*Customer accounts should be monitored regularly and any credit terms or agreements should be carefully considered before introduction and confirmed with written agreements.*

# Expenditure and Payments

## 1. Cheque Journal

It is important that the organisation keeps a detailed cheques journal. Some points to keep in mind include:

- All payments should be recorded in cheque number order
- Details of cheque number, the date the cheque is written, amounts, payees and accounts analysis should be recorded as well as the date the cheque is issued
- Any cancelled cheques should be noted in the cheque journal with no gaps
- As far as possible make all payments via cheque
- The cheque journal should have analysis headings to match accounts. Avoid postings to 'sundries' or 'general'
- All Direct Debits and Standing Orders should be written into cheque journal at month end
- Close off the journal at the end of each month in preparation for bank reconciliation preparation

## 2. Petty Cash

The organisation may retain petty cash in their offices so it is strongly advised that the staff have a clear defined policy on the handling of money. It is recommended that the organisation reduces the need for cash payments to a minimum and is aware that petty cash tends to be time-consuming for finance staff.

If the staff are handling petty cash on a daily basis the policy should clearly state what the float levels are together with a list of responsible people and indicate what types of expenditure can be dealt with by petty cash. The organisation should also ensure that the following procedures are adhered to:

- i. Only use petty cash for small value items such as e.g. under postage  
Petty cash should be recorded in a petty cash book with all receipts retained for each payment (no matter how small). All expenditure through petty cash may also be recorded on a computerised system.
- ii. All claims should be accompanied by receipts otherwise there is no record of what the cash is spent on. In most situations a funder will not reimburse the organisation and an auditor will view the organisation a higher risk.
- iii. As all claims for replenishment should be reconciled and backed up by receipts, using the imprest system will minimise the risk of loss. The imprest system is where the total of cash and receipts always adds up to float level and allows for easy reconciliation at any point in time. For example; if the organisation has a £50 float and £45 is spent, there should be receipts for £45 in the box together with £5 cash. The receipts are then attached to the back of the cheque requisition, together with cashbox reconciliation and a cheque is raised for £45, with the receipts now moving out of petty cash system. The organisation is then back to a £50 cash in the float.
- iv. All claims should be authorised by someone other than the person

- making up a claim check reconciliation as this will reduce the risk of any fraud or loss and will cover individuals from false allegations.
- v. Regular random spot checks of a float by either a board member or a line manager are recommended and if the imprest system is employed it will allow for easy checks of petty cash balances.
  - vi. Lock the petty cash box in the safe.
  - vii. Adopt a reasonable float. For most organisations £50 is a reasonable float to carry in the petty cash box. However, this can be lower, and remember that if large amounts of petty cash are kept on site, insurance levels must be sufficient.
  - viii. There should be no personal expenditure from petty cash as often people will put 'IOUs' in petty cash. This practice should be discouraged at all costs.
  - ix. Reconcile the amount on hand with the petty cash book regularly and have the reconciliation signed off by the Operations Manager at least once a month. Reconciliation should be maintained on file and not just when replenished.
  - x. Finance staff should be careful of mixing petty cash with their own money and it is strongly recommended that there is no mixing with staff monies.

### **3. Procurement/Ordering**

It is important within the organisation that all staff are aware that expenditure is committed when an order is placed on behalf of the group and not when the cheque is requested. Therefore, it is important that all orders are placed properly and are within agreed budgets and delegated powers.

In fact, authorisation levels are more important at the ordering stage than at cheque payment. Organisations tend to concentrate on who can sign cheques unaware that the risk actually lies with authorisation of purchases.

The organisation needs to adopt clear purchasing procedures and should incorporate the following:

- What authorisation levels that are required, i.e. who in organisation can approve purchases and attach quotes. Purchase Orders can then be matched to purchase invoices when they come in from suppliers making for a complete audit trail.
- Value for money i.e. price around, don't take first quotes for goods and services and review the supplier list on an annual basis. If possible, join an affiliated bulk purchasing scheme, i.e., CTA fleet insurance.
- Do not split orders in order to keep below quotation thresholds as this can be subject to audit checks and defeats purpose.
- Ensure there is a segregation of duties – ordering, delivery receipt, invoicing, and payment should not be the responsibility of one person.
- Check goods off against the purchase order when received – do not sign if goods do not match with what has been ordered. Remember that when signed, the title passes to the organisation and it is much more difficult to challenge. A different member of staff should sign for received goods from the person who placed the order which again will reduce the risk of fraud.

Expenditure & budgets are approved before the commencement of a new Business Plan and it is the Operations Manager's responsibility for the operational control of all budgets along with the organisation's Board of Directors and where available the organisation's Finance Committee comprising of the following:

- a) Treasurer
- b) A director with relevant experience
- c) The Operations Manager

When producing goods or services within agreed budget areas, all orders of £500 or more must be authorised by the Finance Committee or members of the board, except for specific areas of expenditure where written procedures have been agreed. This can include trade accounts or direct debit arrangements.

Under £500 the Chief Executive may produce goods without referral to the financial sub-group – expenditure must not deviate from budgets contained in the current approved Business Plan.

The Operations Manager must discuss with the Board of Directors / Finance Committee any deviations from agreed Business Plan budgets – any deviations must be approved by the Board of Directors and written notification or request submitted to any relevant funders or stakeholders.

Orders of £100 or more must be placed in writing where practical. Suppliers must be requested to produce invoices. If payment is needed on or before delivery or no credit is given, a 'pro-forma' should be provided. When ordering goods an official organisation procurement form must be used for all transactions.

Any transaction requiring cash payment must be checked with the Chief Executive before arrangement is confirmed.

Note that funders may have specific terms and conditions regarding procurement procedures and levels, it should be ensured that the organisation and relevant staff are familiar with these requirements.

If the funder does not require specific procurement levels, the table in Finance 3D outlines common procurement procedures.

Order level	Quotes required
Up to £100	One oral quote
Greater than £100 but not exceeding £1,000	Two oral quotes (documented)
Greater than £1,000 but not exceeding £10,000	3 written quotations /selected tenders
Over £10,000	Approval from core funder

#### 4. Expenses and Travel Claims

Expenses can only be claimed if it is for business related expenditure and within agreed policy so it is essential that there are clear policies on what is a reasonable expense, as items such as entertaining always cause issues with funders.

- i. Set allowances for meals when staying away from home are standard as they take away the difficulty of staff going to expensive restaurants and have clear guidelines on the reimbursement of alcohol as many funders are often very strict on this issue.
- ii. All travel expenses should be scrutinised and challenged by line management. The number of miles to destinations is often abused so use set rates. Travel claims are not allowable for home to work journeys and companies should not pay for these as they are not an allowable expense from HMRC's perspective, i.e. if the organisation pays it then the employee must be taxed.

Travel claims should fall within HMRC approved rates; otherwise they are subject to tax. HMRC approved rates are as follows.

- Cars/vans - first 10,000 business miles in year – max rate is 40p per mile
- Cars/vans - Mileage in excess of 10,000 business miles in year –rate is 25p per mile
- Motorcycles – 24p per mile
- Bicycles – 20p per mile
- 5p per passenger per business mile for carrying fellow employees in a car or van on work journeys

The organisation can pay up to this rate free of having to deduct tax or NIC from employees, as payment of mileage is treated as a benefit in kind. If 50p is paid per mile then tax and national insurance must be deducted from the employee, at relevant a rate. Bicycle rate was introduced to encourage greener travel by employees.

- iii. Business insurance on employee vehicles should be in place and the onus is on the employer to encourage staff not to break the law. To enforce this, the organisation should not pay employees mileage if they do not have the adequate business insurance for their vehicle. Home to work generally is OK, but class 1 covers 2k business miles in year – get a copy of their certificate and ask the employee to sign a declaration. Also address the issue of parking fines and speeding tickets and clearly state where the organisation stands in relation to paying these.
- iv. Mobile phone policy: The organisation needs to be aware of the many concerns around mobile phone use and allocation. A robust policy is required covering items relevant to the employee, their intended use, items like child protection (no camera phones), and a clear policy on the personal use of phones.

Company/Contract phones – personal calls should be identified as they need to be recouped, otherwise treated as a 'benefit in kind' HMRC treat giving employees company phones as a benefit in kind, therefore taxable. The onus is on the organisation to show all use is work related in order not to have to pay tax/NIC. Therefore any personal use has to be re-imbursed.

PAYG phones –the organisation should discourage use of pay-as-you go phones as HMRC do not approve of phones where there is no record of how calls are logged. It cannot be proved that the phone has not been used for personal calls, so the PAYG phone usage would be deemed to be a benefit in kind and taxed. Are they taken home in the evening?

Undoubtedly the Issue of phones needs to be carefully controlled as disputes over call charges and inappropriate use when sharing of phones can be very difficult to prove. All mobile phone bills should be monitored by the Operations Manager and itemised bills should be scrutinised for excessive evening calls, international calls and premium rate calls.

## **5. Payment Authorisation**

All invoices must be authorised for payment by the Operations Manager. A senior Administrator or Finance Officer is responsible for checking invoices for accuracy in terms of figures and conformity with the order placed, that the services or goods have been received and following up any problems.

All incoming invoices and payments are to be passed to the Administrative & Finance Officer as soon as they arrive. Invoices and payments should be recorded manually and electronically within 2 days. Invoices are then passed on to the Operations Manager for authorisation. Once authorised as above, suppliers will be paid within the appropriate timescale. This is generally 30 days for others, unless there are exceptional cash-flow difficulties or specific supplier arrangements.

- i. Don't be afraid to take the 30 days to manage cash flow, but avoid paying late or the organisation will get a reputation and suppliers will not want to do business.
- ii. All payments should be supported by original invoices as copies can be a sign of fraud and potential double payments to suppliers. Don't be afraid to query invoices and ask questions if there is uncertainty about an invoice.
- iii. Prepare cheque requisition forms for all payments and have each payment authorised before it is made. To improve efficiency and reduce demands on cheque signatories, batch payments into a small number of cheque runs per month. Do not back-date cheques under any circumstances.
- iv. Cheque signatories – it is the responsibility of both the Board of Directors and the Operations Manager to monitor signatories annually to ensure they are updated. Any new signatory must be approved by the Board of Directors before the bank is notified. Choose directors who are in the vicinity and consider thresholds carefully as often companies have a level below which 2 staff can sign but above a certain level one director has to sign.

Two signatories for each cheque will ensure additional control on payments as a second signatory could ask questions and ensure invoices have an adequate purchase order attached.

Signatories should not sign cheques which are made payable to themselves or even blank cheques and all cheques should be recorded and managed, as discussed earlier in cheque journals.

## **6. Procurement and the Risks**

There are many risks of fraud or loss when dealing with invoices and suppliers and the list below highlights incidents the organisation should look out for:

- Purchase invoices presented twice for payment– this could be a potential fraud where a staff member is working in conjunction with a supplier to defraud the business, be aware of purchases made and payments issued and do not sign cheques blindly.
- Copied purchase invoices presented for payment– again this could be a potential fraud where a staff member is working with a supplier. The organisation should keep a log of all copy invoices and address this with a supplier. It may be the case that copy invoices are being processed automatically by a supplier which could lead to confusion and potential error.
- Payment to supplier on basis of a statement–the organisation should only pay a supplier on the production of an original invoice as this will often result in duplicate payments and funders will not accept statements as evidence of supply of goods.
- Dummy suppliers– be wary of hoax suppliers set up by finance staff.
- The organisation should make an effort to get to know the suppliers are as it is easy to create a bogus invoice. Don't be afraid to challenge. An effective purchase order system should trap this.

# Full Cost Recovery

## Definition

Full cost recovery means recovering or funding the full costs of the organisation in order to deliver specific projects and services. In addition to the costs directly associated with the organisation, such as staff and equipment, projects will also draw on the rest of the organisation. For example, adequate finance, human resources, management, and IT systems, are also integral components of any project or service.

The full cost of any project therefore includes an element of each type of overhead cost, which should be allocated on a comprehensive, robust, and defensible basis. It is easier to quote on the basis of the costs that the organisation can easily tag to a service, but in the long run the organisation are selling the service at a loss as they are not covering overheads.

The major element of calculation therefore focuses on how to allocate overheads to projects or jobs.

## 1. Full Cost Recovery - Calculation

- i. Categories of cost include:
  - Direct costs – fuel costs, tyres, insurance
  - Overhead (fixed) costs – rent/lease, marketing, training, audit
  - Staff costs – how much time spent on projects – timesheets?
- ii. Calculating Cost
  - Direct costs – all costs to project/vehicle
  - Overhead (fixed) costs – allocate using appropriate basis (refer below)
  - Staff costs – calculate the percentage of time and make effective use of employee timesheets
- iii. Overhead costs
  - Divide by number of projects/vehicles
  - Divide as proportion of staff costs
  - Allocate on basis of square footage occupied
  - Use of a spread sheet for calculations

Full cost recovery is often talked about, but there is often a lack of understanding of what it means in practice. In simple terms, full cost recovery means that the money received from a funding body or passengers covers all the costs of delivering the service, project or trip.

Full costs include the relevant proportion of the overhead costs of running the third sector organisation (such as management costs, office rent and postage costs of the project). In the past many organisations have calculated their overheads as a fixed percentage of the project cost. However, this does not always correlate well with the actual costs. There are many toolkits and training courses available to help third sector organisations calculate the “full

cost." One of the most widely used is the Lottery's toolkit:  
[www.biglotteryfund.org.uk/full\\_cost\\_recovery](http://www.biglotteryfund.org.uk/full_cost_recovery).

It is important to note that overhead costs for an individual project may change as an organisation takes on fewer or more projects. This means that "full costs" calculated at the start of the project can only ever be a "best guess" and this should be accepted by both parties; "full costs" should be estimated as accurately as possible, but then should not be recalculated during the life of a project. Where long term, or rolling, contracts exist; it may make sense to review these costs on a regular basis (for example, as part of an annual review process).

However, this approach may not make sense where a third sector organisation holds several long-term contracts with the same statutory organisation (as often occurs, for example, in adult social care). The costing of these contracts will be interdependent, and termination of one or more will have significant effects on the overheads of the other projects, and the third sector organisation may not be able to absorb these costs. An open discussion of the implications may be appropriate.

# Salaries and Wages

It is essential that comprehensive contracts of employment are put in place in order to protect the organisation and ultimately the organisation's core funder's interests. The following areas should be addressed by the organisation in order to develop effective policies and procedures on staff salaries and wages.

## 1. Key Controls

The calculation of payroll should be managed by adequately trained staff, whether they are using a computerised or manual system. It is common that staff who calculate payroll often have no formal training or even understanding of how wages are calculated. A computerised payroll package, such as Sage, can do most of the hard work, but the organisation needs to be able to spot issues and cope with things like Statutory Sick Pay, Statutory Maternity Pay etc. HMRC run a series of free courses on understanding statutory payments via their business support teams so don't be afraid to avail of them.

If the organisation is using a payroll package ensure that the parameters are up-to-date. People calculate payroll based on the previous year's tax free allowances which normally results in the employees being asked to pay more tax or end up applying for a refund. Either way, this erodes confidence in the employees that their pay is being calculated correctly.

Segregation of duties – ensure that one member of staff is not responsible for the entire process. This relates to fact that when payroll is calculated another person should check reports and authorise payments, which can be via cheque or BACS.

As discussed earlier, approval by management is required before payments are made.

## 2. Risks

- i. PAYE legislation - Ensure that the organisation deducts tax and National Insurance Contributions (NIC) at the correct rates. Be careful with casual employees as the onus is on the employer, to collect taxes. If the organisation is subject to a PAYE audit and it has been paying casual wages without taxing them, then as a company it is liable for that employee's tax and NIC, with the onus then on the organisation to chase the employee to reimburse the money.
- ii. Employment law – is the responsibility of the employer and has become very weighted against companies in recent years. It is essential that the organisation operates an effective payroll system in order to minimise the risk of employment tribunals.
- iii. In most organisations the monthly wage bill is the largest payment made and is traditionally the one system in most companies with the least level of control. The organisation needs to recognise the importance of salaries and wages and implement the correct level of procedures to avoid any potential risks of loss or fraud.

### **3. Contracts of Employment**

It is imperative that the organisation has a signed contract of employment on file for every single employee otherwise it is in a very weak position if action is to be taken against that employee. If they have not signed up to the terms and conditions of employment, they have no absolute right to be bound by them, which will include any possible disciplinary procedures. By clearly setting out the full conditions of employment, a signed contract not only protects the employee, but safeguards the organisation as the employer.

If there is any wage rate increase (not cost of living) then a signed amendment must be completed and added to the contract of employment. It is not necessary to write a whole new contract.

Standard items that should be covered in a contract of employment include:

- Employer name & address
- Job title
- Pay rate/scale
- Hours of work
- Overtime
- Holiday entitlement
- Sickness
- Pension entitlement
- Probationary period
- Notice periods
- Redundancy entitlement
- Grievance procedure
- Disciplinary rules
- Changes to terms and conditions

The contract of employment should be standard across all employees in the organisation; however, please note that notice periods for more senior members of staff can vary. It is also considered good practice to attach a copy of the new employee's job description.

### **4. Job Description**

It is this document that tribunals generally look for in terms of disputes over people feeling that they are being asked to perform duties which are outside the scope of their role. It is important that the company keeps a job description on file for each employee and should be amended with consultation with the employee should their role/duties change.

Please note that an employee's job description will be scrutinised should they have a grievance, so it is important not only to have one in place, but to ensure that the document is relevant to the current roles and duties undertaken by the employee.

A job description should include the following:

- Job title
- Who they are responsible to
- Location of work
- A job summary (normally 1 paragraph)
- A list of the main responsibilities
- Conditions of employment
  - Holidays / salary levels etc

# Bank Accounts

It is considered good practice that the organisation opens a separate bank account for each funder the organisation receives money from and it must make sure that the Board have given and minuted all necessary authorisations to opening any new bank account.

Good management of the organisation's bank accounts is essential in order for it to remain financially stable and is crucial in preventing possible loss or even fraud. The following points are necessary to achieve effective bank management:

- Keep the bank mandate up to date (signatories etc)
- Prepare monthly bank reconciliations
- Do not treat transfers between accounts as expenditure in quarterly returns
- Do not make non-funded payments from any bank account
- Show reimbursable expenditure as such at the time it is paid, i.e. do not record it as expenditure in the quarterly returns
- Make sure reimbursable expenditure is repaid promptly
- Consider the nature of receipts carefully and make sure that they are lodged to the appropriate bank account
- Keep borrowings to an absolute minimum
- Make sure that any necessary borrowings are authorised in advance by both the organisation's Board and the bank
- Note that interest and referral charges are not eligible expenditure under a funder's allocations
- Consider entering into an offset arrangement with the organisation's bank if there are several accounts. Make sure that the bank documents the terms of the arrangements with the organisation
- All changes to banking arrangements are to be authorised by the Board of Directors or Trustees
- All income will be paid into the current accounts as soon as possible, not less than once a week
- The make-up of each banking transaction will be clearly recorded manually and electronically
- All information concerning open accounts must be securely filed in the organisation's office in a secure folder for each account

# Bank Reconciliation

Bank reconciliation is considered the single most important control within an organisation as the absence of it can result in serious implications especially with core funders.

## What is Bank Reconciliation?

Bank reconciliation checks the accuracy of the organisation's Bank Analysis Book entries and Bank Statements. It either proves the accuracy of the book keeping or helps the organisation to identify where there are problems. It reconciles the book balance with the balance in the bank. The book balance is the total of cheque journals and lodgement books; therefore in theory the bank reconciliation simply identifies items which haven't yet cleared with the bank.

## Why is it Necessary?

Bank reconciliation allows the organisation to see their real cash balance and in turn enables it to manage cash flow more effectively. Bank reconciliation also ensures that every transaction which passes through the bank account has been recorded in the accounting records and therefore acts as the major reconciliation statement in any business, as all income and expenditure is included.

## Sample Bank Reconciliation:

At 31/09/09		
Opening balance		£750
Add: Receipts book		+£1,495
Less: Cheque journal		-£1,945
<b>Balance per accounts</b>		<b>£300</b>
Add outstanding cheques	Chq 500115 = £1,000 Chq 500116 = £520	+£1,520
Less outstanding lodgements	Lodge 100990 = £120	-£120
Balance per bank statement		£1,700

## Key Controls

Controls on the preparation and review of bank reconciliation are essential as it will be one of the first requirements an auditor will ask for when looking at the business records:

- Perform regularly – It is recommended that the organisation performs

bank reconciliation on a monthly basis and within 2 weeks of when statements are received. It is considered good practice to perform up to the month's end in association with management reports, as this ensures that all items are included such as direct debits and standing orders.

- Explain all differences – it is important that the organisation does not ignore any differences that may arise. Any differences should be signed and dated by the preparer as discrepancies in bank reconciliation will carry forward indefinitely. Note also that differences may also illustrate potential irregularities in the accounts.
- Reviewed and signed off by Operations Manager/treasurer – Once again the segregation of duties is key in bank reconciliation and it is essential that the reviewer understands the importance in highlighting any issues or discrepancies within business accounts at the earliest possible stage.
- Critical review should challenge any unexplained differences. Where an explanation to any discrepancy is not forthcoming then it is important to question these. Critical review of bank reconciliations will make it very difficult for any individual defrauding the business to hide items.

# Management Reports

The Board members have responsibility under the Companies Acts/Charity Commission to ensure that proper books and records are kept. The Board must be satisfied that their organisation has suitable procedures in place to ensure that the finances are managed adequately.

It is recommended that management accounts are presented to the Board on a monthly basis and that the Board establishes a Finance or Administration sub-committee and to delegate the detailed monitoring of finances to the sub-committee.

Functions of the Finance or Administration sub-committee and the limits of their authority should be defined in the terms of reference. All sub-committees should minute all proceedings, and report back to the Board regularly with details of their decisions.

## 1. Budget Setting

Two year income and expenditure budgets should be prepared in time for final approval by the Board of Directors, before the start of any action plan phase.

Budgets are prepared by the Chief Executive along with the Board of Directors and Finance Committee members, where available. It is the Board of Directors responsibility to ensure that budgets are set fairly and in time.

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

## Appportionment of Expenditure

Name all projects that the organisation manages and apportion central costs fairly and logically between them. Make sure that the organisation has formally agreed the basis of apportionment in advance with the funder, in consultation with the liaison officer.

Only allocate funding to defined projects (e.g. LA, Transport for London etc) or defined elements – do not use specified funding to ‘top up’ shortfalls elsewhere.

## 2. Financial Monitoring and Audit

Board of Directors must receive appropriate, regular reports of income and expenditure against budget presented at each Board meeting.

Annual accounts will be submitted for audit, as required under the Charities/Companies Act, charity regulations and grant conditions, prepared per SORP for Charities and any other relevant accounting conventions. Please note that some core funders may require a grant specific audit and financial monitoring in their terms and conditions. A final draft should be ready for and passed by the members at the Annual General Meeting. Refer to the Charity Commission website for further information.

# Tax

Generally most voluntary and community groups are registered charities and therefore are exempt from income tax, corporation tax and capital gains tax (this section is with reference to a registered charity).

## VAT

UK registered charities, however, aren't automatically exempt from paying VAT, but there are a limited number of VAT reliefs on purchases available to charities, including those not registered for VAT. There are also some VAT reliefs available to VAT registered charities only.

If the organisation has a turnover from business supplies that is over the VAT registration threshold, currently £67,000 then it must register for VAT in the same way as any other business.

Once the organisation is registered for VAT it will need to carefully consider the income received and the supplies purchased in order to account for VAT correctly.

## VAT Treatment of Different Types of Income

Some of the most common sources of income received by voluntary and community based organisations may include:

- Donations
- Grant Funding
- Fund raising events
- Hiring out of a building
- Membership subscriptions
- Trading

Remember that if the organisation is registered for VAT it must charge and account for VAT on taxable supplies and if the organisation is not yet registered for VAT any income from taxable business supplies counts towards the turnover, which may affect the decision whether or not to register for VAT.

### 1. Donations

A freely given donation is outside the scope of VAT and is therefore 'non-business' for VAT purposes.

### 2. Grant Funding

The organisation may be in receipt of funding in order to support its activities. If this is given freely, with nothing supplied in return it is considered outside the scope of VAT and not a taxable supply.

However, if the terms and conditions attached to the grant are such that funding is given in return for goods or services supplied by the organisation, then it is viewed for VAT purposes as consideration for a supply. In this case, VAT may be due on the grant income if the goods and/or services supplied by the organisation in return are taxable at either the standard or reduced rate.

### **3. Fund Raising Events**

Some income received by the organisation from fund raising events are exempt from VAT, provided that the event meets particular conditions and the people attending or participating are aware of its primary fundraising purpose.

Please note that activities of a semi-regular or continuous nature, e.g. frequent operation of a shop or café, as well as income from social events which incidentally make a profit, are not exempt from VAT.

### **4. Hiring Out of a Building**

The hiring out of buildings is a business activity that is usually exempt from VAT. However, if the organisation is acting as the landlord and has 'opted to tax' the building then VAT is charged on the rental income at the standard rate.

The option to tax the building isn't normally available if the organisation is hiring the building to another charity or as a dwelling, in this case the income will be exempt from VAT and it may not be able to claim back VAT on the expenses. The organisation therefore needs to consider carefully the plans for a building before opting to tax.

### **5. Membership Subscriptions**

Membership subscriptions are considered a business income and the provision of benefits of a club or an association is a business activity.

The VAT treatment of membership subscription will usually be determined in relation to the benefits being supplied.

A special concession allows charities and non-profit making organisations to treat packages of membership benefits as "multiple supplies. This means that the organisation can consider and apportion of the VAT treatment of each benefit individually against the subscription charge.

If the whole of a subscription is an entirely voluntary payment and secures nothing only nominal benefits in return, then it is treated as a donation and is therefore outside the scope of VAT.

### **6. Trading by Charities**

The small-scale exemption applies to profits from non-primary purpose trading, plus certain other income falling into the category of 'incoming resources from miscellaneous activities'. In order to qualify for the small scale exemption within a given chargeable period, either:

- The annual turnover of the relevant non primary purpose trading of the charity, plus the 'incoming resources from miscellaneous activities' potentially qualifying for exemption, must not exceed the 'relevant threshold' during the chargeable period; or
- If it does exceed the 'relevant threshold', the charity must have had a reasonable expectation at the start of the chargeable period that it would not do so.

The turnover of trading, the profit from which is subject to specific tax exemptions, such as trading connected with fundraising events, should not be counted when determining what the 'relevant threshold is, nor should 'incoming resources from miscellaneous activities' which do not potentially qualify for the small-scale exemption.

The table below indicates how the relevant threshold is calculated. It assumes that the charity has no applicable 'incoming resources from miscellaneous activities' in the chargeable period, which would qualify for the exemption.

<b>Total of all incoming resources in a particular chargeable period of the charity</b>	<b>Maximum permitted annual turnover of the relevant trading in that chargeable period</b>
Under £20,000	£5,000
£20,000 – £200,000	25% of charity's total incoming resources
Over £200,000	£50,000

There is no statutory definition of the term 'all incoming resources', however, HMRC consider that it means the total receipts of the charity for chargeable period from all sources – grants, donations, investment income, trading receipts, etc – calculated in accordance with normal charity accounting rules.

If the turnover of the relevant trading (taken with the relevant 'income from miscellaneous activities) exceeds the maximum level (as indicated in the right-hand column in the above table the small scale exemption does not apply unless the charity had a reasonable expectation at the start of the chargeable period that it would not exceed that level.

The carrying on by a charity of trading turnover of which is within the scope of the small scale exemption is unlikely to contravene the charity law restrictions on carrying on non-primary purpose trading. The low maximum permitted level of trading turnover means that any risk to the charity's resources from the trading is likely to be small.

Therefore, unless prohibited by its governing document, any charity can carry on small scale, non-primary purpose trading and be exempt from corporation tax (or income tax in the case of charitable trusts) on the profits, provided that the profits are applied for the purposes of the charity.

### **VAT Reliefs Available to Charities on Purchases**

Charities may be able to obtain VAT relief on purchases of the following goods and services whether or not they are registered for VAT:

- Advertising and goods connected with collecting donations (Notice 701/58)
- Aids for the disabled (Notice 701/7)
- Building and construction (Notice 708)
- Drugs and chemicals

- Energy saving materials
- Equipment for producing talking books and newspapers
- Lifeboats, slipways and launching recovery equipment
- Medical and scientific equipment
- Charity funded equipment for medical, veterinary uses etc (Notice 701/6)
- Rescue equipment
- Resuscitation training models

VAT does not operate on a refund basis. To claim each of these VAT reliefs the organisation will need to complete a separate eligibility declaration. The organisation quotes the eligibility certificate to the supplier who will not charge VAT on the purchase.

### **Reduced Rate of VAT on Fuel and Power**

Registered charities can receive supplies of fuel and power at the reduced rates of VAT, where it is supplied for non- activities. The charity should provide the supplier with a certificate to declare what percentage of each premises is or will be put to a qualifying use. The organisation must provide a separate certificate for each supply of fuel and power to separate premises.

If the organisation carries out both business and non-business activities in the same premises, provided at least 60 per cent of the organisation's activity is non business it will qualify for reduced rate fuel on the whole bill. If non business activities account for less than 60 per cent of the activities, the organisation will qualify for reduced rate VAT on the non-business activity portion and standard rate VAT on the rest.

## **SORP- Reserves**

The Charities SORP (Statement of Recommended Practice) provides accounting recommendations and sets out the format and content of charity reports and accounts. It is published by the Charity Commission in accordance with the Accounting Standards Board code of practice.

The current SORP was prepared by the Charities SORP Committee, a group of financial experts from the sector, in 2005 and its legal references were updated in July 2008. The Committee is now working on the next SORP which is expected to be published in 2010.

### **Reserves**

In particular SORP sets out specific guidelines on setting and managing a reserves policy within the organisation. Most organisations are keenly aware of the need to secure their viability beyond the immediate future. In order to be able to provide reliable services over the longer term, organisations must be able to absorb setbacks and to take advantage of change and opportunity. Many provide for this by putting aside, when they can afford it, some of their current income as a reserve against future uncertainties.

The purpose of this section therefore is to provide organisations with best practical advice in respect of reserves and how the holding of reserves should be justified through the development and agreement of a Reserves Policy.

### **Definition**

The term “reserves” is applied to that part of an organisation’s income that is freely available for its general purposes. Reserves are the resources the organisation has or can make available to spend for any or all of its purposes once it has met its commitments and covered its other planned expenditure. This definition excludes unspent money from restricted grants, i.e. where a funder has specified what the money must be spent on and the trustees or committee members do not have the power to spend the money on anything else. In terms of Charity Commission/SORP guidance excludes the following:

- i. Permanent endowment/capital
- ii. Expendable endowment/capital
- iii. Restricted income funds
- iv. Designated income funds
- v. Income funds which could only be realised by disposing of fixed assets held for charity use

Although there are no legal restrictions on the use of designated income funds or expendable endowment as reserves, this is generally not recommended by the Charity Commission. If part of an unrestricted fund is ear-marked for a particular project it may be designated as a separate fund. Funds could be designated for a project that the organisation is seeking to build resources for, such as refurbishing their building. Designation does not restrict the Trustees or committee members, they can change their minds. But their initial decision should be a genuine one and not a method for hoarding funds.

The designation should be recorded in the minutes of a board meeting as should any subsequent re-designation. It will be important that a policy providing for any transfer between funds and allocations to or from designated funds as well as the reasons for setting up a fund are explained (specifically in the notes to accounts).

### **Reserves should Include:**

#### **Unrestricted funds– General**

This is money that can be spent on anything which furthers the objectives of the organisation. Often this is money that has been generated through the sale of services or expertise or public fundraising and/or donations. All unrestricted funds come within the definition of free reserves so long as they are not currently designated (see above). Money from restricted funds can only be included in free reserves if the funder has given written permission for this to happen.

#### **Holding Reserves– Why?**

Any organisation which enters commitments – through the agreement to deliver services, the employment of staff, the rental of premises, the purchase of goods or services etc - must ensure that it has sufficient resources. Even when an organisation operates in the most stable of environments where future income streams and expenditure requirements can be identified, there will remain an element of uncertainty as to the absolute timing of each individual transaction and also the possibility that unforeseen expenses or liabilities will emerge. Against this background it is considered good practice for organisations to seek to build some financial reserves which will allow them to meet future commitments or unforeseen expenses without a negative impact on their ability to deliver their services or develop their businesses in the manner planned.

Organisations that hold reserves are able:

- To absorb setbacks and to take advantage of change and opportunity;
- To demonstrate that they have thought through how they might secure their viability beyond the immediate future and provide reliable services over the longer term;
- To demonstrate to potential funders that they are effectively managing their resources, and have given consideration to their long-term plans and viability.

#### **Reserves Policy**

CT Organisations may find their decision to hold reserves is subject to scrutiny or comment in the public arena. Documentation, in the form of a Reserves Policy, provides the public and existing or potential funders with a clear explanation of the nature and purpose of any reserves held. For this reason, the organisation must have a Reserves Policy. The essential point here is that it can demonstrate publicly to donors/funders the reasons to retain a particular level of income as a reserve.

The amount of detail contained within a CT organisation's Reserves Policy

should be proportional to the scale and complexity of the organisation's affairs. A small organisation, or one with a stable pattern of receipts and payments, few if any commitments, and little susceptibility to outside influences should be able to address the matters contained in their Reserves Policy quickly and briefly. Conversely if an organisation's income is volatile or insecure, it has high commitments, and its business is highly susceptible to factors outside its control, it may find that the classifications, scope and level of reserves it would wish to hold are more detailed and its Reserve Policy should reflect this.

In certain circumstances it is acceptable for an organisation not to hold reserves, but this should be the result of a considered decision as demonstrated in their Reserves Policy. The Reserves Policy cannot be formed in isolation and needs to be seen in the context of the overall financial position.

To justify the holding of reserves, a Reserve Policy should be based on a realistic assessment of need and should cover as a minimum:

- The reasons why the organisation needs a reserve or does not;
- What level (or range) of reserves the organisation believes it needs;
- How the organisation aims to generate the required level of reserves;
- What steps the organisation is going to take to maintain reserves at the agreed level (or range); and
- Arrangements for monitoring and reviewing the policy.

The development of a Reserves Policy should be informed by an analysis in each organisation in respect of:

- i. Forecasts for levels of income in future years, taking into account the reliability of each source of income and the prospects for opening up new sources;
- ii. Forecasts for expenditure in future years on the basis of planned activity;
- iii. Analysis of any future needs, opportunities, contingencies or risks that the organisation has demonstrated they would not be able to meet out of routine income; and
- iv. Assessment, on the best evidence reasonably available, of the likelihood of each of those liabilities arising and the potential consequences for the organisation of not being able to meet them; a general assessment of the organisation's financial position.

### **Reserves– Impact on Funding**

An organisation will normally require a minimum level of reserves to fund its working capital requirements and provide funding for contingencies identified in its management statement. Therefore the existence of reserves can be a sign of good resource management. In this regard and following the Charity Commission guidance to funders any future accreditation scheme for organisations in the sector may require evidence of a reserves policy as a prerequisite for accreditation. Organisations should not be penalised for exercising proper governance in the creation of reasonable reserves to meet organisation liabilities. As long as there is a clear documented policy and this

is considered to reflect the organisational needs (this should not adversely affect any funding application).

If the organisation is considered to hold reserves in excess of that justified by its Reserves Policy, a funder may ask the organisation to provide a further justification of the level of funding held or adjust the proportion and/or timing of funding awarded. This should always be documented and explained in writing to the applicant organisation.

### **Setting a Reserve Level**

There is no absolute level of free reserves that an organisation should hold but when looking at the level of free reserves considerations should include:

- How secure is the organisation's present funding?
- How long would it take to find alternative sources of funding?
- If the organisation had to close, how long would it take to wind up in an orderly manner?
- What costs could be involved in winding up. Consider:
  - redundancy costs
  - other staffing liabilities including maternity / paternity pay
  - legal and accountancy costs
  - defined benefit pension scheme (see Charity Commission guidance on Reserves and Defined Benefit). This will centre on identifying cash flow implications
  - the time to the expiry of leases on property, vehicles and office equipment

As a general guide (the following should not be applied without due consideration of the circumstances in each organisation), an acceptable level of free reserve might be considered to be:

- i. Sufficient free reserves to provide cover for 3 - 6 months in relation to known liabilities
- ii. A smaller additional provision of free reserves for unforeseen liabilities

It is also possible that the organisation may hold an amount in respect of designated reserves. This along with the 2 areas listed above are clearly inter-related and should be considered together. It is also important to note that government departments have no obligation to directly fund reserves. Organisations may be able to raise money, for example through direct fundraising or events, raise income from the sale of services including the expertise of staff or the rental of unused space in accommodation they own.

### **Reserves– Disclosure**

The organisation's annual report should state the level of reserves on the last day of the financial year and the future needs, opportunities, contingencies and risks relevant to the level of reserves.

### **Reserves Policy– Timing**

An organisation's Reserves Policy should be reviewed every two or three years but updated at the end of each financial year to take account of any change in circumstance and to recalculate the percentage free reserve based

On the 31st March balance. This should be completed in advance of any applications for funding in the new financial year.

# Fraud Prevention

## Definition – What Constitutes Fraud?

Fraud Act (2006) defines fraud as occurring in 3 potential ways:

1. "Fraud by false representation" - defined as a case where a person makes "any representation as to fact or law ... express or implied" which they know to be untrue or misleading.
2. "Fraud by failing to disclose information" - defined as a case where a person fails to disclose any information to a third party when they are under a legal duty to disclose such information.
3. "Fraud by abuse of position" is defined as a case where a person occupies a position where they are expected to safeguard the financial interests of another person, and abuses that position; this includes cases where the abuse consisted of an omission rather than an overt act.

## Responsibilities

The governing body within the organisation has overall responsibility for the counter-fraud policy and procedures and for establishing and maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives. However, it is expected that staff and volunteer staff at all times act honestly and with integrity in order to safeguard the resources for which they are responsible.

Even individuals and organisations (e.g. suppliers, contractors and service providers) with whom the organisation interacts are expected to act with integrity and without thought or actions involving fraud. The organisation should outline in contract agreements the consequences of fraud, bribery and corruption and that evidence of such acts is likely to lead to a termination of that particular contract, if not all business with that particular supplier.

The management committee is responsible for:

- Ensuring that an adequate internal control system exists and that controls operate effectively
- Preventing & Detecting fraud
- Assessing the risks in operations for which they are accountable
- Reviewing and testing control systems
- Ensuring that controls are being complied with
- Implementing new controls in response to cases of identified weakness or suspected fraud

All staff are responsible for:

- Acting with propriety in the use of company resources being alert to the possibility of unusual events or transactions
- Reporting details immediately if they suspect a fraud has been committed
- Co-operating fully with whoever is conducting internal checks or fraud investigations

The system of internal control is based on an on-going process designed to identify the principal risks, to evaluate the nature and extent of those risks and to manage them effectively. Managing fraud risk will be seen in the context of the management of this wider range of risks.

The organisation should have the following procedures/policies in place:

- Fraud Policy– setting out definitions, and key responsibilities
- Fraud Response Plan– what is the procedure to be followed when a fraud is suspected
- Whistle-Blowing Policy– sets out how someone can confidentially raise concerns

### **Fraud Policy**

The organisation's fraud policy should underline the commitment to the prevention of fraud not only within the organisation but also in relation to all interactions with companies that the organisation deals with.

It is essential that all the staff and sub-contractors are aware of the organisation's anti-fraud policy and know what their responsibilities are in relation to combating fraud.

The policy should outline that:

- Any level of fraud or corruption in or against the organisation will not be tolerated
- Every attempt will be made to deter and prevent fraud
- Opportunities for fraud and corruption will be reduced to the lowest possible level of risk
- Staff will be made aware of the obligation to report suspicions of fraud
- Mechanisms will be in place for staff to report fraud
- Any suspicion of fraud will be thoroughly investigated and dealt with appropriately
- Any evidence of criminal activity will be reported to the police; and
- Mechanisms will be in place for seeking redress in respect of money defrauded

### **Fraud Response Plan**

The organisation should develop a Fraud Response Plan that sets out, for example, how to report suspicions of fraud, how the fraud will be investigated and by whom and what experts to contact for advice. The Plan will form part of the Organisation's anti-fraud policy and should include the following procedures:

- Inform the Board immediately fraud is suspected
- Begin an investigation straight away
- Suspension of the person / people involved until such times as the investigation outcome is known. (starts with paid suspension then moves onto disciplinary procedures)
- Inform funder / police

- Forensic investigation with auditor
- Disciplinary procedures
- Police procedures
- Final report to funder and Board

It is important to note that a fraud investigation may have serious implications not only on the perpetrators but on the organisation's public image and reputation. Specialist advice and guidance should be sought in cases where fraud has been identified.

### **Whistle-Blowing**

The organisation should put in place avenues for reporting suspicions of fraud. Staff should report such suspicions to the Fraud Liaison Officer or other nominated person responsible for managing the risk of fraud within the organisation. If an individual feels unable, for whatever reason, to raise a concern locally about suspected internal fraud or financial irregularity it should be raised with the Operations Manager or Chairperson.

All matters will be dealt with in confidence and vigorous and prompt investigations will be carried out into all cases of actual or suspected fraud discovered or reported.

# Vehicle Operating Costs

## Data and Performance Indicators

### Summary of Log Books

Log Books should be summarised on a monthly basis. The summary should show per vehicle:

1. Total mileage
2. The number of days the vehicle was in use
3. The average mileage per gallon/litre achieved

### Vehicle Operating Costs

The cost of running each vehicle should be calculated quarterly by totalling expenditure on fuel, tyres, maintenance, repairs, accident damage, and insurance and permit fees.

Standing costs should be calculated by taking into consideration costs such as garaging/parking, depreciation and administrative costs.

A vehicle operating cost statement can be compiled using all of the above information. This statement can then be used:

- The preparation of detailed budgets
- To compare actual costs with budgeted costs
- As a basis for identifying transport costs to users or projects
- To prepare performance indicators
- To identify variations in budgeted costs and allow for corrective action

Possible reason for this could include:

- the result of misuse of fuel cards
- inefficient vehicles or wreckless driving
- charges to end users are too low

### Performance Indicators

It is impossible to provide a definitive list of data that should be collected and collated. Broadly, the organisation should be concerned with vehicle utilisation, journey purpose, classification of passengers and operational efficiency.

A number of suggested performance indicators are outlined below:

- Utilisation rate
- Patronage
- Mileage
- Booking summary
- Reason for travelling
- Age bands
- Gender
- Disability

Operational Efficiency indicators include:

- Cost per mile of vehicle
- Maintenance cost per mile
- Vehicle miles per litre
- Fuel cost per mile
- Tyre cost per mile
- Cost per passenger
- Accident cost per mile

### Total Cost Per Mile of Vehicle

<b>Calculation per vehicle per quarter</b>			
<b>Total miles travelled</b>		<b>200</b>	(a)
<b>Running costs</b>			
Fuel	£400		
Tyres	£40		
Maintenance	£60		
Repairs	£100		
Accident damage	£nil		
Insurance	£100	<b>£700</b>	(b)
<b>Standing Costs</b>			
Garaging/parking	£25		
Depreciation	£200	<b>£225</b>	(c)
Total running costs + standing costs	(b) + (c)	<b>£925</b>	(d)
Cost per mile	(d) divided by (a)	<b>£4.63</b>	

Calculating the cost per mile of the vehicles will allow the organisation to identify which vehicles on the fleet are the most efficient and if the trends are compared on the same vehicle it will show if the vehicle is becoming too expensive to run indicating that the organisation may need to consider replacement.

### Total Cost Per Passenger

To calculate the total cost per passenger, simply add the total running costs to the standing costs for the quarter then divide it by the total number of passengers for that quarter. Calculate this for each individual vehicle.

This will give the organisation an indication of the cost of transporting each passenger and allows for comparison between vehicles. A vehicle with a

lower overall cost may have a lesser capacity and may therefore have a higher cost per passenger than a vehicle with a higher overall cost.

Calculating the cost per passenger also allows the organisation to see whether the costs being charged for journeys are realistic i.e. is the organisation losing money when it compares the charges to the organisation's customers against its calculated cost per passenger.

## Leasing Property

It is important to remember that when committing the organisation to a new lease agreement for the premises it follows the same procedures that would be the case for procuring any other item within the organisation. These procedures are outlined in Expenditure and Payments in this Section of the Manual.

Remember that leases can be expensive and will constitute a large portion of the organisation's expenditure for a defined period of time. When signing for a new agreement or extending an existing lease make sure that as a transport organisation, it has all the facilities it requires to effectively deliver the organisation's goals. e.g. parking for vehicles, set down and pick up points for passengers, accessibility for passengers or employees with disabilities, as well as room for expansion if more staff is needed.

Some areas the organisation needs to pay attention to include:

- Be aware of VAT implications when signing leases especially on premises.
- Always have a written lease agreement.
- Make sure there is adequate insurance to cover the premises and contents that the organisation occupies.
- Do not sign a long lease that extends beyond the end of programme funding. Don't be afraid to ask for provision to be made for exiting the lease before its term without incurring penalties. The organisation needs to have a contingency plans in place to allow for cuts in funding, possible mergers or even in the event of having to close the organisation down. The length of the lease should be proportional to reflect the organisation's long term strategic plan.
- Plan accommodation needs in advance and ensure that foreseen changes are factored into the organisation's programme planning.
- Be familiar with the particular requirements where building work is being undertaken.
- Make sure that the organisation gets suitable recognition for works done to rented premises when the rent is being negotiated. E.g. making the premises more accessible for the passengers by putting in ramps, lifts, accessible bathrooms etc.
- Where there is a 'cocktail of funds' for a project, make sure that the elements being funded from each source are clearly defined at the outset.
- Where the organisation is involved in a joint project, make sure that responsibilities for managing and administering the project are clearly defined at the outset.
- Get evidence of ownership/legal interest in property in cases where significant capital works are being undertaken.
- Make sure the organisation notifies core funders of any changes or proposed changes to leasing contracts.