

# LSESU FINANCIAL PROCEDURES

Contents:

Section		Page
A	Introduction	2
B	How Club and Society Finances Work	2
C	Authorising Payments	3
D	7 Standards of Controlling Payment Processes	3
E	Financial Schedule	9
F	Training and Support	9
G	Debt Management for Clubs and Societies	9
H	Dead Clubs and Societies & End of Year Process	9

## **Introduction**

LSESU has very high engagement from its members, particularly in our Student Activities and Engagement departments. The staff team at LSESU process a very high number of transactions every year. In 2017/18 we have reviewed many of the procedures and processes following feedback from students and staff have put together the following financial procedures document.

LSESU is a registered charity which means that we have particular standards and expectations which need to be met in respect of how we spend our money and how those transactions are monitored and logged. We are audited annually and scrutiny is applied to all of our transactions. The highest volume of purchase transactional activity is in 'Student Activities' (clubs and societies, Annual Fund, Travel Fund and participation funds) and it is therefore this area primarily where robust but realistic controls need to be embedded to manage risk and accountability. This will mitigate the risks associated with club and society finances and enable payments to be made efficiently without unnecessary delay.

## **How Club and Society Finances Work**

In accordance with the Bye-Laws, each student group will have a president and a treasurer. The responsibilities of those roles are outlined in the role descriptors and these roles are elected every year. The treasurer is responsible for ensuring that the student group finances are healthy and that appropriate scrutiny is being applied; the president is overall responsible for the student group.

Student groups will accumulate funds in a variety of ways including: memberships, grants from the SU and sponsorship from external companies. Groups are responsible for setting their own membership prices (in accordance with the Bye-Laws) and collecting those memberships. Every year LSESU will also award student groups a grant which must be spent to further the purposes of the student group. Funds which are spent on student activity can be recouped or paid for directly by LSESU on behalf of student groups.

Information regarding types of payments and how to make claims can be found here: <https://www.lsesu.com/organisers-hub/pay-and-reimburse/>

Training is updated regularly and can be found here: <https://www.lsesu.com/join-in/committee-hub/>

## **Authorising Payments**

There are three layers of scrutiny applied to every transaction which takes place specifically within clubs and societies. In the first stage - where there are the most checks to be made - the president or treasurer of the club or society will authorise the claim, then a member of the staff team will conduct a further check and approve the claims followed by the SU Finance Department and bank authorisers (the bank authorisers are the Directorate and Head of Finance). For all claims outside of clubs and societies, the first layer of scrutiny does not apply.

If an error in the transaction is spotted, the process starts again from the beginning and the president or treasurer is asked to review the documentation again from the beginning. This can cause a lot of delays in members receiving their payments and it is often for issues which may appear relatively minor but which may be picked up during audit and which we cannot allow to proceed as an organisation.

To overcome these inefficiencies we take a principles-based approach which places the emphasis of control on where the risk in the process is. Under the system of delegated budget authority, the purpose is to delegate the approval of transactions, and hence the accountability, at the point of risk (where errors can be picked up) within a principles based control framework. Below we have outlined the expectations agreed for the three layers of scrutiny. We'll use practical examples, based on actual experience, which will illustrate the operation of the principles and the SU's expectation of accountability.

**In addition, in order to ensure speedy reimbursement of expenses, to members of clubs or societies, the Students' Union has implemented an electronic app called eXpense365. It is a requirement that all clubs and societies use the app for reimbursement of members' expenses.**

**Paper based claims for expenditure from the Annual Fund is acceptable as there is a lower volume. Paper based claims are also acceptable for claims for which there is no access to the app.**

**The general rule is that if it is possible to make a claim using the eXpense365 app, this route must be used. This ensures speedier processing of the claim.**

### **Layer 1 - Presidents and Treasurers**

This is the point of greatest risk and where robust controls must be in place to mitigate the risk. At the same time, it is the point at which error and fraud can be easily picked up because the volume of transactions is relatively low for each club or society. It is in the interests of clubs and societies to pick up error and/or fraud to ensure there are enough funds for their activities, using the 7 principles found on the following pages.

The expectation is that president and treasurer will apply the greatest scrutiny to all transactions, and will not authorise a payment unless the 7 standards have been met. This will greatly reduce the number of requests which are sent back after the following two layers of scrutiny.

### **Layer 2 – LSESU Staff**

Staff in the SU will be responsible for specific budget codes, up to a certain level which they will be aware of. Once a transaction has been agreed at Layer 1, it will go to a delegated member of staff in the SU for a second layer of scrutiny; this layer of scrutiny is also responsible for ensuring that there are sufficient funds in the budget code and that it has been coded with the correct account and cost centre code. At this stage if the principles haven't been met then they may return the transaction back to Layer 1 or query the payment with the requestor.

If the transaction requested is not from a club or society, staff at Layer 2 will also be applying the 7 standards of control.

N.B.

a. The account code is a 4 digit numerical code that describes what the expense is. For example, 3110 is used for clubs and societies expenditure.

b. The cost centre code is a 3 digit numerical code that describes what club or society is incurring the expenditure. For example 317 Dance Club or 426 Bacchus Wine Society.

### **Layer 3 – Finance and Bank Authorisers**

By this third and final stage there should not be any issues with the transaction requests given the previous two layers of scrutiny. Layer 3 will carry out sample checks to ensure that the 7 standards are being practised and report back on any failures in the process, making corrections with the

Activities staff as required. Sample checks are only the minimum required and the checks can, at any time, be more comprehensive.

In order to sample, bank approvers will use the 80:20 rule for checking the requested payment transaction. This is on the statistical basis that, in general, 20% of the transactions in number will equate to 80% of the value in a payment run. Financial risk in this way is mitigated because 80% of the value in a payment run is checked. The remaining 80% in number of the payment transactions will be on a random sample basis of at least 5% and no more than 10% of the number of payment transaction requests.

Where the sample checks show deviation and failure from the 7 standards and the examples above, the Finance Department and bank authoriser will proactively engage with Layer 2 to investigate what caused the failure and how to prevent it in future.

### **7 Standards of Controlling Payment Processes**

**The underlying payment process control tool is delegated budgetary authority and segregation of duties**, which in a financial process means properly assigning the handling of financial process control procedures among two or more competent, qualified and accountable individuals in a way that provides reasonable assurance that transactions processed will comply with the seven transaction process control standards described below.

*In a financial process having good separation of duties, it is expected that at least one individual involved in the process will identify and/or prevent a transaction processing error, misappropriation, or fraud from occurring.*

All of the individuals involved in a financial process, through the performance of their individual control duties, are expected to ensure each transaction complies with all of the following control standards applicable to the payment process:

1. **Appropriate:** The transaction is directly related to achieving the aims and mission of the club or society and of benefit to all members.
2. **Valid:** The transaction is allowed by club or society constitution and rules, policy, law, contractual agreement, and/or professional standards and has been appropriately authorised.
3. **Reasonable:** The amount being paid for a product or service, or received in payment for a product or service is fair, reasonable and proportionate.
4. **Funded:** For payment transactions, sufficient funding exists to pay for the transaction prior to the legal obligation to make the payment under the delegated budgetary authority.
5. **Accurately recorded:** The transaction amount is consistent with value received, provided, or adjusted for; and is free from accounting coding or arithmetic error. In addition, the amount of the transaction is transparent and can be easily and quickly derived from the supporting documentation.
6. **Supportable:** The amount being paid or received for a good or service, or the amount of an adjustment is consistent with suitable original evidence of supporting documentation that is auditable.
7. **Timely recorded:** The date associated with the transaction is accurate and the transaction is recorded and processed in a timely manner. This allows the SU and clubs and societies to

exercise the required management of its finances by being able to identify funds available for expenditure.

What follows are practical and actual examples of how the 7 standards will operate for the three core payment processes for clubs and societies:-

- a. Claims for payment expenses already and actually incurred;
- b. Purchase Invoices – which are requests for payment for a supply already received and;
- c. Advance payments – as a condition of supply of a good or service to the SU

The following is not meant to be prescriptive as it is impossible to cover every situation over for over 300 clubs and societies, with changes of student body every year. By applying the 7 standards clubs, societies and the Activities team have the delegation and control framework - along with the accountability – to make decisions on new situations. The purpose is to mitigate the risk of fraud and error to an acceptable level.

**The requirement for applying the 7 standards is to essentially ensure:-**

- a. **The payment request is legitimate and legible.**
- b. **All required signatures are on the payment request demonstrating approval and accountability.**
- c. **Full, proper and relevant documentation evidences the payment transaction (including coding).**
- d. **The payment transaction is submitted to Finance in good time so that the payment is not delayed. By good time, it is meant that the student or supplier is paid within the agreed credit period allowing for the Finance Department payment run process (1 week).**

The word “demonstrate” is used below to mean that if a person from outside the process, e.g., an auditor, looked at the hard physical evidence of the transaction at relevant different points, it would be unambiguous, clear and transparent what the documents are evidencing with reference to the control process.

## **STANDARD REQUIREMENTS APPLICABLE TO ALL TRANSACTIONS**

- 1 & 3 The payment must demonstrate benefit for the whole membership of the club or society, not just to a few. This may not always be clear from the claim, but all layers of scrutiny are entitled to query this. For example, if there is a claim for spend on a food, drink etc. that is quite large, but only 10 members out of 100 attended the event it is likely that the request will be queried or rejected.
2. For paper payment claim requests, all signatures must have the name printed alongside the signature to identify the signatory. Three separate and different signatures should be on any paper claim signifying each layer of scrutiny (two for non-clubs or society expenses). For the eXpense365 app, there will be no signatures as the app delivers the approval process at all three layers.
2. The claimant cannot be the same person who authorises the payment request.
2. Any changes made to the payment request must be initialled, dated and name printed by the relevant authoriser - with agreement with the claimant before the request is submitted.
2. Reputable and trusted suppliers must be used wherever possible, e.g. NUS, and any

personal interests or relationships with suppliers must be declared. By this it is meant that the club or society and LSESU staff must have good confidence that the supply will be delivered according to any purchase terms (like delivery dates) and the supplier will not go bankrupt, losing the clubs/societies/SU money.

4. The payment must be approved by signatories up to the limit of their relevant budgetary authority who will ensure and demonstrate that there are actual funds in the club or society account or budget to pay for the transaction. This means that the financial reports should be checked for funds availability. If there is a strong and certain expectation that the account will have sufficient surplus incoming funds from, say tickets sales or sponsorship, the club or society must demonstrate the certainty, timing and collection arrangements for the incoming funds. Clubs and Societies must use the SU bank account to mitigate risk and enable the SU to provide financial information. It will be up to staff in Layers 2 and 3 to satisfy themselves on certainty, timing and collection arrangements for the incoming funds.

Where the club or society is in debt, it is expected that the Activities Co-ordinators are working with the club or society to manage the debt and bring it back into surplus (see Debt Management section of this document). In this situation, payments will be allowed by the SU as normal, provided there is good evidence of debt management leading to a surplus

4. Payment terms from the supplier must be secured to allow the SU to make payment within 30 days of invoice. Shorter periods for payments expose the SU to financial risk by making fast track payments without having time to make process checks.

- 2 & 4 Before payment is requested, the goods or the supply have been satisfactorily received to the expected standard and agreed arrangements. This means that the description on the invoice matches the supply received (or will be received for an advance payment).

5. All parts of the payment form (electronic and paper) must be completed to enable payment speedily without any queries. Where a part of the paper form does not apply, this should be indicated this by writing "N/A". This also includes attached support documentation (electronic and paper) which requires signatures, such as referee fees where the referee signs and the team captain signs and both the names printed.

6. Original supporting documentary evidence must be provided with the transaction wherever possible. This is to prevent a claim being put through more than once. The documentation must be legible and in English to enable the approval. For eXpense365 this will be electronic documentation evidencing the payment. For paper based claims, the original is preferred, but electronic copies will be accepted with the Layer 2 staff's check and approval. Layers 1 and 2 must ensure that paper based claims are not being used at all by clubs and societies. The purpose is to prevent the claim being made more than once.

5. Where the claim does not match up to the total of the amounts on the documentary evidence, the claimant or approver must give the reason showing what the difference is due to.

7. **Claimants should aim to ensure that claims are submitted by the end of the month following the month in which the expense was incurred.** This is to allow the club or society to manage its finances and spend within its means by knowing how much

money it actually has left in its account. In addition it enables the SU to send Management Reports which are accurate. But see also 'Finance Schedule' below for when this rule changes.

Exceptions will be considered by LSESU staff where very good reasons are provided and the student must forewarn LSESU staff of this situation. A good reason could be, for example, personal, family or academic issues, but for example not holidays.

Exceptions will also be made in cases of genuine emergency and the need to make immediate payments. But the relevant authoriser and the Finance Department must have been forewarned in good time and kept in the loop.

## **STANDARD PAYMENT EXPENSES - REQUIREMENTS**

2,3 &4 As this is a situation where the member has actually spent their own money, the payment request form **MUST** include evidence of the member actually paying with their own money. The evidence must be full, complete and legible and in English. Where, on exception, this is not possible, LSESU staff will discuss it with the claimant and use their discretion to decide if the claim is valid. The documentation can include:-

- i) Full and complete receipt (not with any parts faded, or chopped off or in a foreign language).
- ii) Bank statement. This can be an extract from the bank statement if the member wants to retain confidentiality, but it must demonstrate that is a bank statement. For example, the header must include the bank name, logo, address.
- iii) Credit card statement. This can be an extract from the statement if the member wants to retain confidentiality, but it must demonstrate that is a credit card statement. For example, the header must include the bank name, logo, address.
- iv) If the expense has been incurred through an online transaction, the same requirement applies in that there must be evidence of actual payment by providing an acceptable printout. For example, the printout must show payment made through, for example, a VISA number shown and similar evidence. Again the supplier information must be given like logo, address.

Note that orders and invoices are not acceptable. An order, for example, can be cancelled and invoice is a request for payment. Any document provided **MUST** show money actually going out from the member's account.

5. The receipts must add up clearly to the amount being claimed. If the claimant is accepting a lower amount than the total of the receipts, a note may be made to point this out. There can be no more than 5 receipts per claim. This is to allow LSESU staff to process the claim speedily rather than being encumbered with doing additions themselves – which will only slow down the payment for the student. Where, in a situation, there are more than 5 expenses/receipts, a table must be given showing the individual amounts adding up to the total being claimed.

5. All coding information must be written and given. This will be the club or society cost centre code, the account code, the Department code and the VAT code.

## **STANDARDS PURCHASE INVOICES**

This is a situation where a club or society, through Activities, has to pay for goods and services after having received them.

- 1,2,3,4,5 & 6 The invoice must be coded, using the coding stamp. Use of the coding stamp prevents incomplete coding. See end of this document for a picture of the coding stamp.
- 5 & 6 If the supplier is VAT registered, a full and proper VAT invoice must be given. The evidence that a supplier is VAT registered is that VAT is visibly included in the invoice amount, or there is VAT registration number on the invoice. N.B. A VAT REGISTERED SUPPLIER WILL NOT ALWAYS BE HELPFUL IN PROVIDING THIS AFTER THE GOODS HAVE BEEN DELIVERED. IT IS VITAL THEREFORE THAT AN AGREEMENT IS MADE, AT THE OUTSET, BEFORE AN ORDER IS PLACED, WITH THE SUPPLIER THAT A FULL VAT INVOICE WILL BE PROVIDED.
- 5 & 6 If the invoice shows a series of amounts, the invoice must show a total amount – with the total adding up to the series of amounts.
- 5 Purchase invoices must have complete information to enable the SU to process the payment. This is the supplier's name and address, correctly addressed to the SU, payment details, full description of the supply (for example, the dates of the supply if it is a series of supplies like dance lessons).

Where the purchase is from a supplier on a sole trader and self-employed basis, like gym instructors, there must be an agreement in place between the club or society and Activities that the supplier is engaged on a self-employed basis to provide the supply. As a minimum, in case of audit by HMRC, the agreement must have written evidence of the sole trader's NI number.

#### **STANDARD ADVANCE PAYMENTS**

- 3 & 4 An advance payment must be avoided if at all possible. This is because the supplier could go into bankruptcy before the goods or services are delivered, meaning the club or society will lose money. Steps to avoid advance payments include seeking alternative suppliers, using the strength of a large order to negotiate payment after the supply, agreeing to pay a small deposit with the remainder paid after the supply or arranging staged payments leading up to the event.
- 5 & 6 If, after all this, there is demonstrably no option but to pay in advance, no advance payment will be made to a supplier without a suitable track record of trading and without appropriate supporting documentation – specifically an order confirmation and an invoice. In addition, the club or society must negotiate a supply where payment can be made by the SU through its payment run process (BACS) and not by, for example, Direct Debit, on the SU bank accounts(s). The advance payment terms must also be fair to the SU. For example, if the advance payment is large, terms must be negotiated for the SU to pay by staged payments.
- A track record of trading means that there is less risk of the supplier going bust. Reputable suppliers must be used as first choice at all times. These can include for example NUS, hotel chains or on line suppliers like Amazon etc.
- 5 & 6 A VAT registered supplier must provide a full and complete VAT invoice for the payment request. N.B. NOT ALL SUPPLIERS ARE AWARE THAT THEY MUST DO THIS ACCORDING TO VAT RULES AND MAY CHALLENGE THIS REQUIREMENT. In this situation, we have to go about our business and a pro forma invoice is acceptable. But the club or society MUST obtain the agreement of the VAT registered supplier beforehand that the SU will



be given the full VAT invoice within 30 days after the supply has been made with a note indicating the amount has been fully paid.

5 & 7

Where a supplier (whether for a club/society or SU supplier) requires a payment in advance, particularly for a large amount requiring the approval of a Director, the club/society/budget holder is **required to give the Finance Department 14 days' notice before the required payment run date, meeting all reporting and recording requirements**. This period is required for Finance to carry out any checks before the payment is made. The purpose is to mitigate two key risks. Firstly and foremost to be sure that the supplier doesn't go bust and the SU loses its money. Secondly, to ensure that the right documentation is delivered and is in place to process the advance payment speedily to avoid a disruption of the supply.

Genuine emergencies will be considered, but last minute payment requests will not be acceptable, unless appropriate LSESU staff have been forewarned and kept in the loop.

### **Finance Schedule**

On average, it takes up to four weeks for a payment to be completely processed without any errors; please factor that in to any expenditure. Invoices and requests for payments must have completed Layers 1 and 2 by **Tuesday at 12 pm in order for payment to be made by the end of that week**. Any issues will mean that the request will be delayed into the following weeks' payment run or longer depending on how long the issue takes to resolve. You should therefore aim to get your payment requests and invoices in as early as possible, and aim to ensure that all claims are submitted within the month that the expenditure has happened.

There are certain times of the year which create bottlenecks in the payment runs which cause delays. In particular, at the end of Michaelmas and Lent Term. LSESU will circulate the final deadline for submitting requests well in advance of the end of each term, however if there are any issues with the documentation or a large number of requests submitted, the payment may not take place until the beginning of the following term. You should therefore endeavour to get all requests and invoices in well in advance of the end of each term. The deadline will be two weeks before the end of term, unless advised otherwise by LSESU.

### **Training and Support**

The individuals performing process control duties must be provided with adequate training, support, and authority in order to be successful. By individuals, it is meant anyone who is involved in the payment checking and approval.

Staff in the SU are actively trained by regular 1-2-1 meetings conducted by the Finance Department as well as organisational finance training.

Club and society committee members should receive regular training, and this document will be available online all year round for committee members to review. Committee members will only be able to authorise transactions once they have completed the training provided. If you are a Committee member and you have not completed the relevant training please email: [su.arcstaff@lse.ac.uk](mailto:su.arcstaff@lse.ac.uk) or visit the Activities Resource Centre in the Saw Swee Hock Student Centre.

### **Debt Management**

A key expectation is that the treasurer will look at regular club or society financial reports and flag any errors with LSESU staff. The same is expected of all budget managers in the Union.

As outlined above, before processing any transactions, the staff at Layer 2 will review whether there are sufficient funds in your budget to allow the transaction to go ahead. Staff at Layer 2 may refuse a transaction if there are insufficient funds in the budget, or may freeze activity for that club or society if it is clear that the club or society is in debt or likely to go into debt. Staff may also on occasion reconcile or audit a club or society account or budget and ask the committee members to explain or correct any errors.

Where a club or society has gone or is likely to go into debt, a Debt Management programme may be drawn up as an agreement between LSESU and the club or society. The aim of such a programme is to enable activity to continue without leaving the club, society or LSESU in debt. In some cases the debt management plan may span over numerous years, and may involve (for instance) seeking additional sponsorship or charging extra for membership the following year. All clubs and societies are required to follow any debt management plan agreed between them and LSESU Staff.

### **Dead Clubs and Societies and End of Year Procedures**

Balances may accumulate in individual club and society codes due to a combination of reasons, such as where a club or society is dormant or no longer active. LSESU will annually review accounts to identify which have not been active over the previous year with a view to close such accounts and redistribute funds to student activity. Attempts should be made where possible to contact societies which have been inactive for 12 months to warn of the possibility of closure and transfer of unspent funds at 18 months and societies will only be considered 'dead' if they have been inactive for at least 18 months.

The appropriateness of 'clearing' a club or society balance shall be assessed by the Student Activities Team on a case-by-case basis and a final decision will be made by the Head of Activities and Opportunities. The following criteria will be considered in making that decision:

If surplus balances have arisen due to unspent grant from the SU, then it will be appropriate for the Union to claw back unspent grant. If, however, all or some of the surplus balance has arisen due to membership receipts, the SU shall consider:

- The likelihood of the student group continuing in some form; and
- How practicable it would be to return unspent membership fees back to members.

If clearance of 'dead' society money is still considered appropriate, the Student Activities Team should complete a Grant Allocation Template Journal Form which sets out the appropriate entries, authorised by the Head of Activities and Opportunities, and then sent to Finance for processing.

Similarly, at the end of each year, any unspent grant funding allocated to any student group is expected to be returned by following a similar format to the above.

*Note: A disclaimer should be applied at the point of donation where possible that membership income which remains unspent may be dealt with in line with the Union's process for dead societies.*

**Coding****Stamp**

LSE			
ACC CODE	E.g. 7400 (Travel & Subsistence)	DEPT	e.g. 031
DATE	24th Jan 2018	VAT CODE	T3 (Partially Recoverable)
NAME	Of Budget holder / approver	SIGN	