



**Imperial College Union
Board of Trustees / 12 May 2021**

Finance Function Improvement Plan

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Purpose: To provide an initial analysis of the performance of the finance function at ICU and set out a six-month plan for improvement.

1. Context

I started as Director of Finance & Resources on 1 February 2021 at 0.2 FTE, becoming full time from mid-March 2021. My experiences and observations since then form the basis of this report on the performance of the finance function and development of a six-month plan for improvement.

It is important to note that this is an assessment of the *finance function*, as defined below, and not an assessment of the Finance Team or individual staff members.

2. The Finance Function

Broadly, the *finance function* is defined as the overall administrative system that deals with the acquisition, allocation and utilisation of funds across the organisation. Inevitably, the Finance Team plays a major role in this system and has a responsibility to maintain the system effectively, however the *function* is much broader than those colleagues for whom finance is a primary component of their job description.

At ICU, the following are considered within the finance function:

- i. Accounting – the recording of financial transactions within the finance recording system (SAP)
- ii. Compliance – with regards to legal, regulatory and tax requirements related to finance
- iii. Management and Control – the systems, processes and use of financial data in the planning, execution and monitoring of operational financial decision-making
- iv. Strategy and Risk – the interaction between financial resourcing and organisational risk and long-term planning

The following sections consider each in more detail.

3. Accounting

The accounting system at ICU is more automated than most students' unions and comparable organisations, making use of technology through our website, eActivities and EPOS till systems to automatically post transactions to SAP without the manual intervention of members of the finance team. This creates efficiency but increases complexity, particularly as many technical solutions have been bespoke built in-house.

3.1 Issues/areas for improvement

The following areas have been identified as key focus points for the next six months:

- Systems documentation – due to the complexity of our use of bespoke technology, there is a risk that business-critical knowledge only exists in the heads of individuals. A full systems review and documentation process should be undertaken.
- Balance sheet reconciliations – because many processes (including some reconciliations) are automated, there has not been a thorough, regular, manual review of the balance sheet for some time. This has resulted in there being a number of balance sheet accounts with historical balances not actively managed, monitored or understood (an example of this being the Imprest issue identified in February 2021). A full balance sheet review is underway.

- Fixed assets – we have a fairly large fixed asset register which has not had a comprehensive review for some time. This will be reviewed for impairment in line with accounting standards as well as in line with a refreshed policy in this area.

4. Compliance

Our main compliance risks are related to being a registered charity (and the associated regulations around use of funds), the statutory audit process and UK tax. We have a good understanding of our requirements with the Charity Commission. The 2019/20 statutory audit has highlighted some issues with the audit arrangements (though we have been compliant). With regards to tax, there are ongoing risks.

4.1 Issues/areas for improvement

The following areas have been identified as key focus points for the next six months:

- Audit review – we have already tendered for and appointed a new auditor for the 2021/22 financial year and beyond, and look forward to working with them to undertake a robust audit process.
- VAT – there is a sector-wide risk around particular VAT treatments that HMRC is particularly interested in (eg use of catering concession) and we have a live query from HMRC on this matter. We are also part of a sector-wide challenge on HMRC’s interpretation of the legislation. Irrespective of the outcome of this issue, our VAT record keeping could be improved, and it is timely to review our VAT strategy in light of recent organisational changes. A VAT review will be undertaken to identify opportunities as well as risks in this area.
- Corporation Tax – As a not-for-profit organisation, we are entitled to undertake trading activities to both generate funds and to further our charitable aims. The legislation in this area is complex, but there is a risk that at least some of our trading activity should be subject to CT. Whilst there may not be a significant liability (since CT is only charged on profits), we would still need to do the calculations and submit a CT return. A professional assessment of our activities and potential CT risk will be undertaken.

5. Management and Control

This incorporates the majority of the wider finance ‘system’, with which a significant number of students and staff interact. It covers everything from the setting of budgets, purchase-to-pay, income collection, management accounting and performance reporting. Due to the size of this area, much more detailed work will need to be undertaken on individual processes and controls. This paper considers the higher level principles involved.

5.1 Issues/areas for improvement

The following areas have been identified as key focus points for the next six months:

- Control framework review – the current control framework is focused around a 60-page Financial Procedures Manual last reviewed in 2015. This will be reviewed to ensure that policies are reviewed and approved by Trustees; that processes and procedures are in place to adequately uphold policy; and that appropriate training and guidance is in place to ensure compliance.
- Policy review – as previously presented to the Board of Trustees, a policy review will be undertaken in June.
- Responsibility and Accountability – currently, there is a lack of clarity over who (either individuals or teams) is responsible for particular processes or tasks, which has led to a reduction in trust and increasing inefficiency. This will be partly improved by considering the

structure of some roles but will also require a broader clarification of what is expected of individuals and teams throughout the entire finance function.

- Month-end reporting – management accounts are produced each month and provide budget holders and Trustees with valuable information in managing their budgets, however there is a lack of balance sheet reporting or integrated review at a senior level. The month-end process will be reviewed to introduce a comprehensive formal reporting pack to be reviewed by the Director of Finance & Resources.
- A student-centred approach – within the context of policy and compliance, we need our approach to consider how we design our financial processes to best support our student leaders and add value to their activities. This will be a shift from the current approach which is more internally focused on staff efficiency (but lacks a holistic view).

6. Strategy and Risk

With a new strategic plan pending approval and a new funding model proposed to the College, there are strategic changes planned which will have financial impacts. Whilst these are expected to be positive, it is important that this is managed and monitored. Major financial risks are also covered by the internal audit function.

6.1 Issues/areas for improvement

The following areas have been identified as key focus points for the next six months:

- Longer term budget setting – whilst this has been difficult in the current coronavirus pandemic, we should develop a rolling 3-year budget to ensure that adequate resource planning supports the strategy and helps manage risk.
- Reserves policy and strategy – financial reserves are a major mitigation for risk and it is vital they are actively considered by Trustees. A reserves policy will be presented for approval by the Board of Trustees and a strategy will be developed for managing reserves in a way to best support long term success.

7. Timeline

A detailed timeline, including proposed dates for committee sign-off of various policies and changes will be presented to the Finance & Risk Committee for consideration in June 2021.