



# **MAF Europe**

## **Finance and Related Matters Reference Book**

### **FRM.01 Amendment 0**

**MAF Europe Operations Centre,  
Henwood, Ashford, Kent  
TN24 8DH UK**



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# **MAF Europe**

## **Finance and Related Matters Reference Book**

### **Section - 0 Introduction**



## 0.1. **Introduction**

The purpose of the **Finance and Related Matters Reference Book** is to set out MAF's principles, policies and practices on those matters, which affect the "business" of the fellowship. It includes the "how to do it" as well as the "why we do it".

The principles are the concepts which MAF has adopted for undertaking its various activities;

The policies are the reason why we do things the way in which we do; and

The practices are how we do things on a day-to-day basis.

The over-riding purpose of the MAF OCUK Finance Department at Ashford is **to monitor and protect the financial and legal health of MAF**. Similarly the over-riding purpose of each Programme Finance Department must be **to monitor and protect the financial and legal health of the programme in conjunction with the Programme Manager**.

The financial health of MAF or a programme is protected if:

- It is "living within its means" – i.e. at all stages the financial reports indicate at least a break-even result for the year (for programmes and departments, taking into account the "grant" from MAF central funds);
- It complies with MAF income and expenditure policies in respect of all capital and revenue transactions;
- Its internal control is documented and control procedures evidenced;
- Its debtors are within the limits set by the Empowerment Policies;
- Its inventory is within the limits set by the Empowerment Policies;
- Its cash and bank balances are within the limits set by the Empowerment Policies;
- Its creditors are paid by the due dates;
- Its accruals and prepayments are accurately calculated;
- The financial reports are prepared to reflect the current and future impact of all known factors, are clearly explained in the narrative pages and are submitted on a timely basis;
- All agreements and contracts are documented, recorded and regularly reviewed;
- Its local registration is relevant and correct and it complies with local business, currency and employment legislation.
- All other MAF Board Policies are complied with – asset protection, investment and treasury and fund accounting.

This reference book sets out how we can achieve these over-riding aims.

**0.2. Abbreviations**

MAF	Mission Aviation Fellowship Europe
Board	The Board of Directors of MAF. They are also Trustees.
ET	Executive Team
SMT	Senior Management Team
OCUK	Operations Centre UK (in Ashford)
ASC	Aviation Standards Committee
ASD	Aviation Services Department
ISD	Information Services Department
CEO	Chief Executive Officer
CFO	Chief Finance Officer
OCUK FD	OCUK Finance Department in Ashford, UK
PFD	Programme Finance Department
PSF	PS Financials, the accounting software used by MAF
SAMS	Shearer Aviation Management System, the inventory software used by MAF to record aircraft spares and "rotables"



# **MAF Europe**

## **Finance and Related Matters Reference Book**

### **Section - 1 Finance**



## 1.1. **Introduction**

The Finance section of this reference book sets out the principles and practices used within MAF for handling money, recording transactions, exercising control over financial matters and reporting.

### ➤ **Definitions**

Definitions of the main terms used in the reference book are set out in the table at 1.2 below.

### ➤ **Financial Principles**

The financial principles are the financial framework within which MAF operates

### ➤ **Practices and Procedures**

The financial practices and procedures are the methods by which MAF programmes and departments operate financially. Although there is some flexibility each programme and department **must** operate these practices and procedures. They have been developed from experience and in discussion with finance managers. They are designed to keep MAF systems as simple as possible.

### ➤ **Periodic Routines**

The periodic routines are established as a part of the MAF internal control system. They are designed to ensure that MAF operates financially and legally as efficiently and effectively as possible.

Internal control checks are required for the protection of MAF and for the protection of staff who work in those departments where money is handled. Where systems are seen to be working and where checks are seen to be exercised, staff are protected from suspicion should things go wrong.

The stated systems and internal control checks are mandatory.

## 1.2. Definitions

<b>Charitable Purpose</b>	<p>MAF's charitable purpose is quoted in its <i>Memorandum of Association</i> as:</p> <p>".. to advance the Christian faith by such means as the Charity shall determine from time to time but without prejudice to the generality of the foregoing by supporting and encouraging the work of national churches, missions and relief and development agencies in developing countries so that the love of Christ is shared in word and by practical means in:</p> <ul style="list-style-type: none"> <li>i) the provision of air and other appropriate transport;</li> <li>ii) linking people with information quickly and easily;</li> <li>iii) supplying goods and services economically and efficiently;</li> <li>iv) such other means being charitable as the Charity shall determine." </li></ul>
<b>Capital Fund (The)</b>	<p>A <i>designated fund</i> made up of the <i>fixed assets</i> and the funds for the replacement of <i>depreciating assets</i>.</p>
<b>Depreciating Assets</b>	<p><i>Fixed assets</i>, which are assumed to depreciate with use. These include vehicles and equipment, but exclude aircraft, land and buildings.</p>
<b>Designated Funds</b>	<p><i>Unrestricted funds</i>, which have been allocated for a specific purpose by the board or by management. Such funds can be re-allocated – examples are the <i>Capital Fund</i> and the <i>Self-insurance Fund</i>.</p>
<b>Fixed Assets</b>	<p>Assets, which are held for and used by MAF and are expected to last for more than one year. Pragmatically, assets costing less than a minimum level are not treated a fixed assets. At the date of this issue assets costing less than \$2,000 are treated as <i>revenue expenditure</i>.</p>
<b>Operational Funds</b>	<p>Funds received for and used to fund MAF operations.</p>
<b>Restricted Funds</b>	<p>Funds given for a specific purpose. Only the donor can change that purpose. MAF is thus restricted in its use of them and technically holds them in trust on behalf of the donor. Such funds include <i>fixed assets</i> bought from restricted funds and cash received but not yet spent. MAF is required to keep separate records of restricted funds and of any <i>fixed assets</i> bought with them. Funds given for a project will usually be restricted funds.</p>

<b>Revenue Expenditure</b>	Expenditure on consumables and on assets which cost less than the <i>fixed assets</i> minimum level.
<b>Self-Insurance Fund</b>	A <i>designated fund</i> set up to cover the deductible amount from any claim under MAF's aviation insurance, loss or damage to MAF owned vehicles and some locally employed staff matters.
<b>Tactical Investment Fund</b>	A <i>designated fund</i> set up to allow the purchase of a fixed asset for which no funds are otherwise available, or to start a project prior to specific funding being available.
<b>Unrestricted Funds</b>	Funds which the board and management are free to use in support of MAF's <i>charitable purpose</i> , without any restriction by the donor.
<b>Project Funds</b>	Restricted or unrestricted funds to meet the cost of a project. These funds are managed at OCUK under the authority of the ET.
<b>Programme</b>	A division of MAF delivering mission services in a country
<b>Department</b>	A support department acting as part of the central function of MAF.
<b>Budget holder</b>	An individual staff member who is responsible for the financial management of a department.

**Note:** Other more specific definitions may be found in relevant sections of this reference book.

### 1.3. *Financial Principles*

#### ⇒ **Standard of accounting**

MAF is incorporated in England. It is also a registered charity in England. Its standards of book-keeping and reporting are legally prescribed.

“The trustees of a charity shall ensure that accounting records are kept in respect of the charity which are sufficient to show and explain all of the charity’s transactions and which are such as to:

- disclose at any time, with reasonable accuracy, the financial position of the charity at that time...”. (extract Charities Act 1993 – section 41)

It is a principle of MAF therefore that its transactions recording and reporting will meet the legal requirements of English law and that the same principle will apply to any relevant financial recording and reporting requirements of the countries in which MAF operates.

#### ⇒ **Taxation**

It is a principle that MAF, its programmes and staff will pay correctly assessed tax and duty in the countries in which it operates.

The financial affairs of MAF and each individual member of staff can, of course, be arranged so as to minimise any tax assessments. MAF will not, however, evade tax.

#### ⇒ **Currency**

It is a principle that MAF and every individual staff member abide by local exchange control regulations and that MAF does not speculate in currency dealings.

#### ⇒ **Efficient and Effective Stewardship**

It is a principle that MAF and its programmes will operate financially as efficiently and effectively as possible, making use of relevant financial and business methods and equipment, thereby exercising the best stewardship.

#### ⇒ **Bribery**

Under The Anti-terrorism, Crime and Security Act 2001 it is an offence for a UK national or for any company incorporated under a UK law to bribe “a foreign public official”.

It is a policy that neither MAF nor any of its employees will make a bribe or try to make a bribe. Similarly it is policy that no person may receive a bribe, or what can be construed as a bribe, on behalf of MAF.

## **1.4. Practices and Procedures**

### **1.4.1. Financial Reports and Lines of Responsibility**

#### **1.4.1.1. Annual Planning Process**

MAF must balance the cost of its plans with its expected income. The planning process is as follows:

- In August each year, each programme and department makes its tactical plans for the following year;
- The tactical plans are translated into financial plans which are passed to the OCUK Finance Department;
- All programme and department financial plans are collated by the OCUK Finance Department to provide an overall view of the forecast finances for MAF in respect of the coming year;
- The ET compares the total net costs needed with the expected gift income and makes requests for changes to the individual programme and department financial plans such that anticipated income matches anticipated costs;
- The revised financial plan for the coming year is submitted to the Board of MAF for consideration and approval;
- The financial plan for the year is accepted by the Board.

The approved financial plan for each programme and department is referred to as its “Original Plan” for the year.

#### **1.4.1.2. Programme Finances**

Each programme is expected to manage its own finances. In the original financial plan for the year after the planned income is netted off from the planned expenditure the resultant deficit is matched by a “grant” from central funds. In this way a programme will financially “break even”. The Programme Manager is expected to manage the programme activity such that the result for the year will be at least a break-even position.

As a minimum, the Programme Manager, Finance Manager and senior engineer will form the programme finance management team but other members of the management staff may be invited by the Programme Manager to join the team. This team is responsible for ensuring that all required information is made available to the Finance Manager in a timely manner in order that the Financial Report is produced after the end of each month and passed to the OCUK Finance Department. The format for the main part of each Financial Report is defined by the OCUK Finance Department but Finance Managers may extend the reporting documents to suit the particular needs of each programme.

Each member of the programme finance management team **must** review the monthly programme Financial Reports including reports of the financial activity to date and the forecasts to the end of the financial year. If the forecast result for the calendar year is a deficit, the programme finance management team is expected to consider revisions to the forecast for the future months: revisions

to fares income, other income, direct expenses and overhead expenditure may bring the forecast back to breakeven.

If a Programme Manager is unable to revise the forecast in order that the deficit is eliminated then he should refer the problem to the Executive Team, who may be able to help in the planning or may be able to identify other funding with which to cover the deficit.

### 1.4.1.3. Windfall Surpluses

In the approved MAF financial plan for each calendar year every programme and department is allocated central unrestricted funds such that its total income matches its total expenditure (described here as a “break-even” position).

It is accepted that the original plans for each programme and department are an estimate of what might happen financially during the year, but the MAF consolidated plan (all Programmes and Departments added together) will show that there ought to be sufficient funds to meet the costs of planned activity during for the year.

The main reasons that may cause a deficit (i.e. where the allocated central unrestricted funds are insufficient to meet the net expenditure) to arise are:

- reduced flying activity;
- more “high impact” flying and less commercial flying than forecast;
- increased operational costs;
- overspent/under-funded projects;
- increased overhead expenditure.

The main reasons that may cause a surplus (i.e. where the allocated central unrestricted funds are in excess of those needed to meet the net expenditure) to arise are:

- increased flying activity;
- more commercial flying and less “high impact” flying than forecast;
- reduced operational costs;
- insufficient subsidies given;
- reduced overheads.

If a surplus is forecast the Programme Manager and the CFO will analyse the source of the surplus and agree the use to which it may be put.

A surplus arising from increased income from flying and from reduced operating costs could be considered a “windfall” and would normally be used across MAF in general (for example, to meet another programme’s deficit).

A surplus arising from lower than forecast discounts given and from reduced overheads would normally be available for use within the programme. The Programme Manager may decide to provide additional discounts for high impact flying or to revise upwards overhead forecast expenditure in any section within the programme.



## 1.4.2. Financial Reports

The following pages are **mandatory** in programme Financial Reports:

- A narrative report commenting on the results achieved in the period to the date of the report explaining significant variances from forecast, providing reasons for revising the original forecast for income and expenditure for the period to the end of the financial year and explaining any breach of financial constraints (stock value, debtors value, cash balances held) disclosed in the Balance Sheet;
- A report of the results achieved for the month compared to the original plan for the month and to the actual results achieved in the same month in the previous year.
- A report of the activity for the period from 1 January to the current month end compared to the original plan or revised forecast for that period and to the actual results achieved in the same period in the previous year.
- An analysis of the actual monthly income and expenditure for the year to date and forecasts to the end of the financial year, revised from the original plan to reflect the latest known facts, and totalled to give a revised forecast of the income and expenditure for the year and the result anticipated;
- An analysis of the actual monthly income and direct costs expenditure for the year to date for each aircraft type and forecasts to the end of the financial year, revised from the original plan to reflect the latest known facts, and totalled to give a revised forecast of the income and direct costs expenditure for the financial year for that aircraft type;
- A Balance Sheet.

### 1.4.2.1. Timing of Reports to OCUK

The following timetable is important because it means that the Programme Manager and management team receives the financial management data in good time and that the work undertaken by the OCUK Finance Department for MAF-wide financial management is not held up:

- Inter-company accounts details circulated to the other Programmes and to OCUK within 5 working days of the end of each month at the latest.
- For programmes which prepare their own financial reports:
  - Financial reports and cash flow forecasts to OCUK Finance Department by 15<sup>th</sup> of the following month at the latest.
- For programmes that use OCUK as a bureau for the preparation of Financial Reports:
  - Accounting records and cash flow forecasts to the OCUK Finance Department by the end of the 6<sup>th</sup> working day of the following month;

**The detailed Practices and Procedures to be adopted in respect of specific accounting matters in MAF programmes are outlined in the following paragraphs.**

### 1.4.3. Stocks

#### 1.4.3.1. Stock Valuation

All items of stock are deemed to be used on a “first in, first out” (FIFO) basis.

##### ⇒ Aircraft spares and “rotables” inventory

Aircraft spares stocks are recorded in the SAMS system. Reports generated by this system are available in the relevant programme and are posted on the MAF intranet for access by OCUK FD staff. The value of stocks on SAMS are to be reconciled to the PSF control account every month by the programme Finance Manager.

In order to maintain consistency from programme to programme, and in order to keep the valuation process as simple as possible, stock items are valued at their invoiced cost (after having deducted any discounts received). Transport, carriage, customs duty and tax are not included in the value. These items are written off as revenue expenditure when paid (nominal code D210...) and as an aircraft maintenance direct cost.

It should be noted that, when this type of stock is sold to a third party or fitted on a third party aircraft, the sale price charged by MAF **must** include uplift elements to reflect all transport, customs, handling, taxes and labour costs met by MAF.

##### ⇒ Fuel inventory

Records **must** be maintained of fuel stocks held at each location. The record **must** be amended and the balance confirmed every time fuel is uplifted.

Fuel stock should be valued including the cost of any drums purchased. The cost of shipping fuel up-country should be written off in the same way as spare parts handling costs (nominal code D100...) and apportioned to the appropriate aircraft.

It should be noted that, when this type of stock is sold to a third party, the sale price charged **must** include uplift elements to reflect all transport, customs, handling, taxes and labour costs met by MAF.

##### ⇒ Logistics inventory

Records **must** be maintained of logistics stocks held at each location. The record **must** be amended and the balance confirmed at a minimum of every three months.

Logistics stock should be valued including the cost.

It should be noted that, when this type of stock is sold to a third party, the sale price charged **must** include uplift elements to reflect all transport, customs, handling, taxes and labour costs met by MAF.

##### ⇒ Other inventory

Records **must** be maintained of all stocks owned by MAF and held at each location.

The method used for recording and valuing stocks **must** be agreed between the Programme Finance Manager and OCUK FD.

### 1.4.3.2. Inventory value parameters

In order to provide aircraft engineers with inventory parameters within which they may work, the ASD periodically (usually once each year) sets an aircraft "Spare Parts Inventory Value" limit for each programme. The limit set for a programme will depend upon the type and number of each type of aircraft operated.

The "Spare Parts Inventory Value" limit for a programme is to include all consumable aircraft spares and "rotables" owned by the programme. The Programme Manager and senior engineer must manage their aircraft spares and "rotables" within the limits set by ASD. Should the Programme Manager and senior engineer agree that an increase in "Spare Parts Inventory Value" limit is warranted in order to improve maintenance efficiency, they may apply to the head of ASD for an increase and must supply detailed documented reasons for the request.

A number of "rotable" parts are owned centrally by MAF and their use is under the authority of the MAF Chief Engineer. These items are referred to as Pool Rotables and they are recorded in the SAMS software at the location in which they are kept. The value of these Pool Rotables is not included in the "Spare Parts Inventory Value" limit set by ASD.

The balances on the financial controls over each category of inventory (aircraft spares and rotables, fuel, logistics stock) is to be separately disclosed in each programme balance sheet.

#### ⇒ Definition of "rotables"

A "rotable" is an assembly of parts which may be overhauled by replacing or repairing some of its parts in order to restore the assembly to serviceability. A "rotable" usually has a serial number and the basic housing, body or main part has a "core value". It is generally more economical to repair the rotatable than to replace it with a new unit.

### 1.4.3.3. Re-ordering of Aircraft Spares

The senior engineer in each programme is responsible for stewardship and control over the aircraft spares stocks within the parameters set by ASD. He is responsible for ensuring that parts are in stock in advance of the anticipated service needs of the aircraft operating in the programme.

Before each aircraft part costing \$1,000 or more may be ordered for stock, two separate quotations of the purchase cost must be obtained and the Programme Manager must approve the purchase.

Where a "rotable" part is needed, the senior engineer **must** consult with the MAF Chief Engineer before placing an order.

#### 1.4.3.4. Reporting Stock Usage

##### ➤ Aircraft spares and “rotables”

As all items of stock are to be accounted for on a FIFO basis it is important to accurately process transactions in stock items and all SAMS stock records **must** be reconciled with the PSF nominal control accounts at the end of each month.

Transactions in aircraft spares and “rotable” items are recorded and tracked in SAMS. The monthly reports produced by SAMS are as follows:

- Stock Value Report – a summary of the movements in each month identifying total movements in “Consumables”, “Non-pool Rotables” and “Pool Rotables”
- Rotables in Stock Report – provides a list of rotables owned by the programme at the end of each month and their status (in stock, in quarantine or passed for repair).
- Consolidated Monthly Inventory Report – a detailed report of the items received and issued during each month.

These reports enable Finance Managers to account for the movements in aircraft spares stocks each month.

##### ➤ Fuel stocks

Fuel stock usage is to be allocated to the relevant aircraft when preparing the financial reports for the programme at the end of each month. Reports are prepared by the Operations section of each programme that will assist the programme Finance Manager to make this allocation and process the adjustments in the PSF accounting software.

##### ➤ Logistics stocks

Logistics stock movements are to be recorded when preparing the financial reports for the programme at the end of each month. Reports are to be prepared by the Logistics section of each programme that will assist programme Finance Manager to make this allocation and process the adjustments in the PSF accounting software.

##### ➤ Other stock

Subject to materiality, all other stock movements are to be recorded when preparing the financial reports for the programme at the end of each month. Where appropriate, reports are to be prepared in each programme that will assist programme Finance Manager to make this allocation and process the adjustments in the PSF accounting software.

### 1.4.3.5. Movements in Rotable Stock

Accounting procedures to be used are as follows:

#### ⇒ Repair/Overhaul of Rotable Parts

- When a rotatable part is removed from an aircraft (*old part*):
  - Debit quarantined rotatable stock with the core value of the removed part;
  - Credit the aircraft with the core value of the removed part.

This transaction can be identified from the Rotables in Stock report produced by SAMS.

- When the replacement a part is fitted:

The issue of a rotatable part is identified from the Consolidated Monthly Inventory Report produced by SAMS.

- Debit the aircraft with the core value of the part being fitted;
- Credit stock with the core value of the part being fitted;
- Debit the aircraft with the estimated repair/overhaul cost;

*Note: this is the cost of the repair EXCLUDING any core charges or credits.*

- Credit accruals with the estimated repair/overhaul cost.

*Note: this is the cost of the repair EXCLUDING any core charges or credits.*

- When the *old part* is repaired/overhauled:
  - Reverse the accrual entry;
  - Debit accruals with the original estimated repair cost of the *old part*;
  - Credit bank/cash etc. with the repair cost of the *old part*;
  - Debit or Credit the aircraft with the balance of the repair cost above or below the original estimate;
  - Debit stock with the core value of the repaired part;
  - Credit quarantined stock with the core value of the repaired part.

#### ⇒ Additional Rotable Parts

- When an additional rotatable part is acquired:
  - Debit stock with the core value of the additional rotatable part;
  - Debit the "Shiny Factor" Fund (inter-company charge to OCUK Ashford) with the difference between the purchase price and the core value (known as the "Shiny Factor");
  - Credit cash/bank or accruals with the purchase cost.

#### 1.4.3.6. Stock Quantity Check Counts

MAF policy is that the stock of each type of aircraft spare or rotatable should be physically counted and the SAMS stock record adjusted to the actual count number at least once in each calendar year. The MAF financial year ends on 31 December. Ideally those stock lines that are used the most during a financial year should be counted more often.

The Programme Manager and senior engineer are required to decide on the method to be used to achieve the check count of stock items and two methods are suggested:

- a regular monthly count of a selection of stock lines such that all lines are counted once each year and the faster moving lines are counted more often; or
- a full count of all stock lines undertaken towards the end of the MAF financial year.

Should a Programme Manager and senior engineer decided to undertake a full stock count on one date, the count does not need to be undertaken on 31 December. If the count is undertaken shortly before (say 30 November) or shortly after that date, it is essential that stock records at 31 December are adjusted for items issued/received up to or after 31 December to provide an accurate record of the physical stocks held at close of activities on 31 December.

The Programme Manager and senior engineer may decide that stocks are to be counted using a regular monthly count. Provided these counts are completed, documented and the documents retained for examination by the auditors, it may not be necessary to undertake a full stock count at the end of the financial year.

All rotatables **not** in aircraft (whether red, yellow or green tagged) **must** be physically checked to the SAMS 'rotatables in stock' report at the end of every month.

Any rotatable items in quarantine or sent for repair should be included in the "rotatables in stock" report (with details of their current location).

Stocks of aviation and other fuels are to be measured as close to the end of the financial year as is possible and corrected for stock received and usage between the date of the measure and the end of the financial year in order to provide an accurate record of the physical stocks held at the end of the financial year.

Stocks of logistics and other spares are to be recorded as close to the end of the financial year as is possible and corrected for stock received and usage between the date of the count and the end of the financial year in order to provide an accurate record of the physical stocks held at the end of the financial year.

## 1.4.4. Debtors and Prepayments

### 1.4.4.1. Debtors Ledger

Debit balances (positive balances) on the debtors ledger represent sums due to MAF and credit balances (negative balances) may represent deposits held by MAF.

The debtors ledger account structure is to be set up as follows:

- Each account is to have an alpha/ numeric code (AAANN);
- The three alpha characters represent the name of the individual or organisation (probably the first three characters of an individual's surname or initials where that is the usual form of abbreviation for an organisation); and
- The two numeric characters define the type of account (01 to 49 for aircraft fares, 50 to 79 for logistics sales, 80 to 89 for international staff).

The balances on the debtors ledger **must** be meaningful and relate to actual amounts owing to or by MAF. This means that:

- Amounts received must be allocated against invoices as soon as possible after the receipt is processed;

*Note: See information about the issue of receipts at 1.4.9.1.*

- Any exchange differences must be written off/back each month to account O200..... - "Exchange differences";
- Any discount granted to a customer for flight fares must be approved by the Programme Manager.

Where money is owed to MAF a statement **must** be given to the customer (by post, hand or email), every month and the customer contacted to enquire about the date when payment may be expected.

Deposits given to MAF by a customer should be credited to a different account to the customer's working account. The aged debtors list should include only sufficient of the deposit to cover the amount owing.

Any deposit or the balance of a deposit that cannot be so allocated should be shown within creditors on the balance sheet.

If a debtors' ledger account is kept for "one-off" customer invoices, the balance on this account **must** be reconciled every month, with allocations and adjustments being made as necessary at the time.

Debtors in excess of 3 months old **must** be reviewed by the Programme Manager and Finance Manager each month and the action to be taken agreed between them.

### 1.4.4.2. Credit Given to Customers

Only in exceptional circumstances can a customer receive a service without payment in advance. Each programme's operations department must be informed in writing by the Programme Manager / Finance Manager of exactly which people in which customer organisations are permitted to book a flight "on credit". This written authority **must** be reviewed at least every three months taking into account recent debt collection results.

A statement of the customer's account **must** be issued to each account holder (including International Staff members) as soon as possible after the end of each month. Statements can be issued to customers more frequently if this will assist in obtaining payment more speedily. Subject to the local IT situation, statements can be offered "real-time" on line with PSF.

Regular contact **must** be maintained with customers who are permitted credit, in order to ensure that the account is settled regularly, reconciled and agreed by both MAF and the customer, any exchange differences accounted for and the transactions allocated in PSF.

#### 1.4.4.3. Credit Balances on Debtors Ledger

Every month the Finance Manager **must** review credit balances on debtors ledger.

Credit balances in a debtors ledger will probably represent a deposit (see Customer Deposits) or payment in advance.

The debtors shown in the monthly balance sheet **must** be "grossed up" and debtors **must not** be netted off with amounts owing to the customer.

#### 1.4.4.4. Credit given to International Staff

Apart from vehicle loans, MAF is not able to loan money to International Staff, but pragmatically staff may be given an account with their programme to be maintained as part of the debtors ledger. This account is to be used for processing personal expenses paid initially by the programme (e.g. a telephone bill, utilities bills) or for recharging personal use of MAF vehicles and similar transactions.

International Staff **must** settle their accounts with the programme within two weeks of the month end, but larger personal expenses (e.g. personal air travel) should be settled as soon as MAF has made the commitment. Settlement of accounts should not wait until a statement has been issued.

#### 1.4.4.5. Loans to Locally Employed Staff

It is accepted that locally employed staff, other than in the UK, may draw a loan of up to 10% of their annual remuneration, which is to be repaid in equal instalments over the following 12 months. The number of instalments may be reduced by a Programme Manager.

Written confirmation of the loan arrangements, signed by both the Finance Manager and the member of staff, must be given to the employee and a signed copy must be held in the relevant personnel file.

Each member of local staff is entitled to receive only one loan each calendar year unless, in exceptional circumstances, additional loans are approved by the Programme Manager. The authority for such additional loans is to be documented on the signed copy of the loan agreement filed in the personnel file.

A note of the outstanding balance should be given to the employee monthly.



#### 1.4.4.6. Vehicle Loans

MAF is able to lend funds to International Staff to assist with the purchase of a personal vehicle. The maximum is 50% of the cost of the vehicle or USD10,000 whichever is the lower. An individual loan agreement is to be signed by both parties to the loan and a signed copy retained on the individual personnel file.

The normal repayment method for such loans is a monthly bank transfer to OCUK, but this can be changed to quarterly repayments or to an arrangement whereby funds are received by the programme. The vehicle loan account is kept by the OCUK Finance Department. Details of all loan payments and receipts should be passed to OCUK via the inter-company account.

Such loans are interest free and may be repaid over a maximum period of 48 months. The loan from MAF must be settled in full on the disposal of the vehicle.

#### 1.4.4.7. Bad or “Doubtful” Debts

Outstanding balances on every debtors ledger should be reviewed at the end of each month by the programme Finance Manager. Allocations, exchange differences, incorrect invoices, amended invoices, and other such amendments should be corrected, in order that the ledger balances reflect sums that are correctly collectible. This process must be completed every month.

Amounts unpaid which are over 3 months old should be reviewed every month by the Programme Manager and a provision created for those debts over 6 months old. The Provision for Bad and Doubtful Debts must be updated each month.

Where a debt is older than 9 months and provided the Programme Manager agrees that it cannot be collected, the Finance Manager may write it out of the debtors ledger and set it against the provision.

#### 1.4.4.8. Prepayments

Programme monthly Finance Reports **must** be adjusted to reflect expenditure paid in advance. Such payments in advance usually relate to property rental payments, property and vehicle insurance payments, radio and similar licences and IT contracts.

Where the OCUK Finance Department acts as bureau for the preparation of Financial Reports, it is essential that full details of all prepaid expenses, including the nature of the expense and the period to which it relates (for example, Rent for the Smith house for the period from 1 April to 30 June), are provided each month in order that the adjustments may be calculated.

Exceptional expenditure on stationery and brochures that are printed for a specific future purpose may be treated as a prepayment in the Financial Report.

## 1.4.5. Bank and Cash

### 1.4.5.1. Bank and Cash Transactions

Each transaction into or out of any bank account, cash till or cash float must be separately recorded in the transaction records and no set off if to be undertaken.

The programme Finance Manager is responsible for ensuring that adequate controls are established over bank and cash transactions and for undertaking a periodic test count of each cash till and cash float. (See points 1.4.5.3 and 1.4.5.4 below)

A control record is to be maintained in the programme finance department of all bank accounts, cash tills and cash floats that are used. Details should be recorded of the value of each float, its holder, and the reason why each float is needed.

A **cash till** is a cash balance held in the programme finance department or another department which is established to both receive cash from sales and to pay authorised expenses. (See point 1.4.5.3 below)

A **cash float** is a cash balance held by a programme staff member which is established solely for the purpose of paying authorised expenses. (See point 1.4.5.4 below)

The continued existence of each float and that it remains at the recorded total value **must** be checked by the Finance Manager every three months or more often.

The amount of and purpose for each float should be reviewed every 3 months or more often to ensure that it is still necessary, adequate for the purpose intended and not excessive.

Programmes that operate in a cash-based society may not be able to use "imprest" procedures for the main cash till that is usually kept in the Programme Finance Department as it will be used to receive cash from sales transactions.

See also section 1.5.1.2 of this reference book for information on cash management.

### 1.4.5.2. Payment Instructions to a Bank

This section covers the signing of cheques, and other instructions issued to a bank, including approval of electronic transfers.

For MAF's security and for the protection of accounts staff all instructions to our banks **must** be signed by two people\*\*, one of whom should be the Finance Manager or the Programme Manager.

*\*\*Each Programme Manager may decide that it is permissible for a cheque for less than \$100 (or currency equivalent) or a lower sum to be signed by just one person. The Programme Manager may decide who is eligible to act as a cheque signatory.*

Due to the wording of the mandates given to banks in the UK for the change of a cheque signatory, all such changes must be confirmed by the MAF board for UK bank accounts.

For programme bank accounts changes to signatories must be reported to OCUK Finance Department, as required by the MAF Board.

### 1.4.5.3. Cash Tills

The main cash till used in a programme will usually be maintained in the programme finance department.

The Finance Manager (or where the Finance Manager maintains the main cash float, the Programme Manager) **must** physically count the cash:

- at the end of a day when cash has been drawn from the bank;
- on the last day of each month;
- at an unscheduled time at least once each month.

**The above is the minimum requirement.** Checks may be made more frequently.

The Finance Manager (or Programme Manager, see above) must check that

- all amounts drawn from the bank are included in the PSF records;
- no balancing entries have been included in the records;
- the physical cash agrees with the written record.

The reviewing manager must sign the cash count record sheet to confirm that this action has been completed. The cash count record sheet must be retained for examination by the auditors.

### 1.4.5.4. Cash Floats

Cash floats are specific sums issued to an individual or to a department to enable them to undertake purchase transactions under the authority of the budget holder without the need to refer to the programme finance department. Receipts of cash from sales transactions are not to be accepted in a Float. These transactions should be passed to the Programme Finance Department together with a copy of the receipt issued to the customer.

Floats should be kept on an “imprest” basis:

- The value shown on vouchers for each item of expenditure and the remaining cash will always equal the amount of the float;
- At the end of each month and whenever additional cash is required, the value of the expense vouchers (signed by the budget holder with nominal codes noted on each) and the balance of the float must be checked by the Programme Finance Department. The float should be made back up to the original amount on each such occasion and the expense vouchers processed in PSF.

The holder of the float and the member of the Programme Finance Department checking the float value must sign the cash count record sheet to confirm that this action has been completed. The cash count record sheet must be retained for examination by the auditors.

The number of floats should be kept to a minimum.

A cash float should be operated only by the person to whom the float has been issued.

Holders of individual cash floats must sign an acknowledgement that they are holding and are responsible for the amount of the float at least every three months. A programme Finance Manager or Programme Manager may require this to be undertaken more frequently.

#### 1.4.5.5. Cash in transit from the Bank

MAF operates mainly in cash-based societies and it is necessary for cash to be collected from a bank to enable the payment of expenses and wages and any surplus cash may need to be taken to the bank to pay in.

Great care must be taken to observe security measures for the protection of MAF staff and the funds.

Usual security measures include:

- Staff members carrying cash not travelling on their own, having a colleague and a driver if necessary;
- Vary the route to the bank;
- Vary the time and day of trips to the bank;
- Instruct staff not to put themselves at risk to protect MAF cash.

#### 1.4.5.6. Bank Reconciliations

MAF finance departments **must** receive a statement of transactions in each bank account every month.

The transactions on the statement **must** be reconciled with the programme finance records every month and the reconciliation documented and filed for examination by the auditors.

Any differences noted during the reconciliation process should be reviewed and the programme finance records brought into line with the bank statement where appropriate.

The reconciliation must be documented to show details of:

- Amounts banked and not shown on the statement (including the date when it was banked);
- Payments made not shown on the statement (including the date when the cheque [for example] was sent).

*Note: transactions identified from the statement (such as bank charges and interest) **must** be processed into PSF during the reconciliation process and therefore will not need to be shown on the reconciliation.*

*Note: if the bank statement is received more than a day or two after the end of the month there is no need to delay the other month end procedures. Additional entries identified can be processed in the following month. There is no need to wait.*

The monthly bank reconciliation for each bank account must be reviewed every month and signed by the Finance Manager (or by the Programme Manager where the Finance Manager has prepared the reconciliation).

The review must check that the:

- Bank balance shown agrees with the original bank statement issued by the bank;
- Reasons why any amounts banked have not appeared on the bank statement;
- Reasons why any cheques written have not been cleared (and consider cancelling them if necessary).

The reviewing manager must sign the bank reconciliation record sheet to confirm that this action has been completed.

#### **1.4.5.7. Cash Flow Forecasts**

The Board's CEO Empowerment Policies limit the amount of cash/bank balance that a programme may hold. Funds not immediately needed in a programme are to be held in UK rather than in a programme and a transfer of surplus funds is to be considered by the Finance Manager each month.

Each month the programme Finance Manager is required to prepare a cash flow forecast for the 3 months ahead. This forecast is to be presented to OCUK Finance Department together with the programme financial reports. The cash-flow forecast should include an indication of when funds transfers to or from OCUK Finance Department are anticipated.

When a transfer is sought from the OCUK Finance Department the programme Finance Manager should use the MAF Intranet Payment Request system where possible and giving 7 working days notice of the requested transfer of funds.

## 1.4.6. Creditors and Accruals

### 1.4.6.1. Purchases Ledger (or Creditors' Ledger as it is known in PSF)

Credit balances (positive balances) on the creditors' ledger represent sums payable by MAF and debit balances (negative balances) may represent deposits held by third parties on behalf of MAF or sums due to MAF.

A creditors' ledger **must** be kept when a significant number of items or services are acquired on credit.

The creditors ledger account structure is to be set up as follows:

- Each account is to have an alpha/ numeric code (AAANN)
- The three alpha characters represent the name of the individual or organisation (probably the first three characters of an individual's surname or initials where that is the usual form of abbreviation for an organisation); and
- The two numeric characters can be used to define the type of account (01 to 49 for aircraft suppliers, 50 to 79 for logistics suppliers).

The balances on the creditors' ledger **must** be meaningful and relate to actual amounts owing by or to MAF. This means that:

- An invoice must be entered into the purchase ledger as soon as possible after it has been received and before it is passed to the budget holder for approval. Approval of each invoice must be evidenced by signature of the budget holder and the account code confirmed before the invoice is paid.
- Amounts paid must be allocated against invoices as soon as possible after the payment is processed.
- Any exchange differences must be written off/back each month to account O200..... - "Exchange differences".

The programme Finance Manager is responsible for defining which members of an MAF programme finance department are authorised to open credit accounts with suppliers. When a credit account is opened with a supplier, the names of MAF staff authorised to commit MAF to a purchase transaction **must** be agreed with the supplier in writing.

When MAF agree a credit account with a supplier, the supplier **must** be instructed to send a statement of the account situation to the programme finance department at the end of each month.

Supplier's statements received must be reconciled with the creditors' ledger balance whenever they are received. Any differences noted **must** be investigated and corrected if necessary.

Deposits given by MAF to a customer should be debited to a different account to the supplier's working account. The aged creditors list should include only sufficient of the deposit to cover the amount owing.

Any deposit or the balance of a deposit that cannot be so allocated should be shown within debtors on the balance sheet.

If a creditors' ledger account is kept for "one-off" supplier invoices, the balance on this account **must** be reconciled every month, with allocations and adjustments being made as necessary at the time.

#### 1.4.6.2. Debit Balances on Creditors' Ledger

Every month the Finance Manager **must** review debit balances in a creditors' ledger.

Debit balances in a purchase ledger may mean that money is owed to MAF. Money owed to MAF should be collected!

The creditors shown in the monthly balance sheet must be "grossed up" and creditors are not netted off with amounts collectable.

#### 1.4.6.3. Accruals

Programme monthly Finance Reports **must** be adjusted to reflect expenditure incurred on goods and services received during a month but which have not been paid for at the end of the month and for which no liability has been included in the creditors ledger should this be used as part of the programme accounting records.

Such expenditure may either have been invoiced but not paid or has not been invoiced or paid. Such liabilities usually relate to aircraft spares delivered, aircraft fuel uplifted, landing and overflight fees, utility bills, telephone and internet charges, property rent, and similar costs.

Where no information is available as to the costs incurred on any item, an estimate of the liability **must** be included in the Financial Report.

It is very important that accurate estimates are made of aircraft fuel usage costs incurred during every month. These must be checked to the delivery / uplift receipts received by the operations personnel or pilots from the supplier.

It is very important that accurate estimates are made of aircraft landing and over flight fees incurred during every month.

Where the OCUK Finance Department acts as bureau for the preparation of Financial Reports, it is essential that full details of all accrued expenses, including the nature of the expense and the period to which it relates (for example, Landing fees for the period from 1 April to 30 April), are provided each month in order that the adjustments may be calculated.

## 1.4.7. Inter-Programme/Company Transactions and Balances

### 1.4.7.1. Inter-Company Accounts

Payments made by one programme which are authorised by and to be charged to another programme should be debited to the Inter-company account (nominal code X980 – plus the suffix agreed with the receiving programme Finance Manager). Payments made by a Programme which are to be charged to OCUK should be debited to the Inter-company account (code X990 - plus the suffix agreed with the OCUK Finance Department).

Details of the Inter-company account balance must be forwarded to other programmes and to the OCUK Finance Department within 5 working day of the end of the month.

The inter-company accounts between each programme and the other programmes and the OCUK Finance Department are to be reconciled every month. Any late changes arising from these reconciliations are to be notified to the relevant programme Finance Manager as soon as possible.

### 1.4.7.2. Charging Costs to another Programme

(Also known as “Transfer pricing”)

A programme’s agreed overheads are established in its original financial plan for the year and it is given a grant from central funds in order that it will “break-even”. There is no financial need, therefore, to pass costs on to another programme or department, unless they are additional to the original financial plan and arise as a direct result of a service provided to the other programme or department.

MAF does not charge any element of profit or penalty between programmes and support departments.

It is acknowledged that, in some situations, it can be difficult to calculate the additional costs of a service provided. There are therefore 3 situations where MAF uses a standard to avoid a difficult calculation and confusion.

#### ⇒ Use of an MAF Aircraft

- Fares for MAF employees (of another programme or department) travelling on MAF business are charged at the “mission rate” for that aircraft. Internal fares are not charged for own programme staff travelling on programme business.
- Use of a programme’s aircraft for training etc of another programme’s pilots is also charged at the equivalent of the “mission rate”.

#### ⇒ Wet-lease of an Aircraft to another Programme

- The income and direct expenditure of the lessee programme’s use of an aircraft “wet-leased in” are treated, for accounting purposes, as being the income and expenditure of the lessee programme.
- If the lessor programme can demonstrate loss of hours because the aircraft was not available to it then a transfer may be considered from central funds to compensate the lessor programme. Such compensation will be calculated with reference to the lost hours at the “contribution to overheads” rate for that aircraft.



**⇒ Guest House Accommodation**

- The relevant programme or department may be charged the standard mission rate for accommodation in an MAF operated guest house.

In each situation when additional direct costs or standard costs are to be charged to another programme or department, they must be agreed between the programmes involved before the service is provided.

**1.4.7.3. Transferring Funds to OCUK**

Customers can arrange payment by electronic transfer to an MAF bank in the UK where accounts are held in £ sterling, US dollars and Euro.

Wherever possible, programme staff should encourage customers to make payments electronically, however, cheques drawn on a UK bank received by a programme can be sent to the OCUK Finance Department for banking in the UK. This will reduce bank charges for the drawer.

Unless the customer organisation is a long standing customer with MAF, cheques drawn on a US bank should not be accepted. These are difficult to clear and it can take a long time to find out if the cheque is honoured. US dollar cheques should not be accepted from individuals.

Non-local currency cash sums can be hand carried to the UK for banking in the UK.

Each programme Finance Manager has a duty to ensure that all transfers of funds are permitted under local exchange control regulations.

**1.4.7.4. Requesting Payments to be made by the OCUK Finance Department**

Where instructions are given to the OCUK Finance Department to undertake a purchasing transaction on behalf of a programme, the approval of the relevant budget holder in the instructing programme is required together with the budget code to which the cost is to be allocated in the programme.

The instructing Programme Finance Manager should use the MAF Intranet payment request facility to request the payment and details of the nominal code to which the transaction is to be posted in the programme should be provided in the instruction.

Where the internet connection does not allow the programme Finance Manager to access the MAF Intranet payment request facility, payments can be requested by email addressed to the OCUK Finance Department. The email from the Finance Manager **must** provide details of the authorisation by the budget holder and the nominal code to which the cost is to be allocated in the programme.

**1.4.7.5. Accounting for Housing Costs**

Cost incurred on housing for International Staff are forecast in the original plan each year.

Housing income received is to be allocated to nominal code A800HSG.

Actual costs incurred are to be allocated to the nominal code range A810HSG to A890HSG.

**1.4.8. Currencies and Exchange Rates****1.4.8.1. Exchange Rates**

The main reporting currency of MAF is US dollar. To give consistency throughout MAF agreed exchange rates are used for all currency transactions. These exchanged rates are issued to programme finance departments from the OCUK Finance Department at the beginning of every month and are to be up-dated in the PSF software with effect from the first day of each month.

## 1.4.9. Income Transactions

### 1.4.9.1. Receipts to be given when Cash, Cheques or Bankers Drafts are received from Customers or Donors

A receipt **must** be given immediately whenever funds are received by MAF. It may be issued from a receipt book, or it may be generated from an entry in PSF.

Receipts **must** show:

- the amount received;
- the name of the person and organisation from whom the sum was received;
- the date the receipt was issued;
- a sequential number for the receipt document;
- the purpose for the amount received (fares invoice number(s) and name of passenger(s) where relevant);
- the name of the MAF staff member receiving the money.

The sequential number on each receipt must be processed into the PSF software when the sum received is processed.

The sequence of receipt numbers processed must be checked each month in order to confirm that all cash received is entered into the system and that there are no missing receipt numbers.

All copies of any receipt in a receipt book that is spoiled **must** be retained in the receipt book. When a receipt book is used up, it is to be handed back to the programme finance department.

#### ➔ Register of receipt books

Unused receipt books must be kept securely in a locked store accessible only to the programme finance personnel. A register **must** be kept of all receipt books including the used receipt book sequences, those receipt book sequences in use and the name of the user, and the un-issued receipt book sequences.

When an unused receipt book is issued, the name of the person to whom it is issued **must** be recorded in the register at the same time confirming the details of the sequence of receipt numbers in that book are correctly recorded.

When a used up receipt book is returned, the name of the person returning the book **must** be recorded in the register.

## 1.4.10. Expenditure Transactions

### 1.4.10.1. Authorisation of expenditure

The person responsible for controlling expenditure within a part of the financial plan (the “budget holder”) for each programme or department is required to authorise each expenditure transaction. This authority **must** be evidenced by signature on the invoice provided by the supplier of the item or service.

In circumstances where a supplier does not provide an invoice, a document may be generated within MAF on which the authorisation **must** be evidenced.

Programme or department Finance Managers are required to inform each budget holder of the nominal codes relating to that part of the plan for which the budget holder is responsible.

Each item of expenditure **must** be charged to a nominal code within the accounting system. Each budget holder is responsible for allocating to each item of expenditure to a nominal code in the range for which they are responsible.

The budget holder **must** check each payment, sign the invoice to evidence authority for the expenditure and write on the invoice the nominal code to which the expenditure is to be allocated.

Where an item of expenditure is acquired on credit, the budget holder is required to note on the invoice the date on which payment is to be made by the Programme Finance Department.

### 1.4.10.2. Use of a MAF Credit Card

A MAF credit card may be issued to an individual who needs to travel as part of their role within MAF. The holder of such a MAF credit card is responsible for all transactions undertaken using it and for ensuring that the serial number and PIN are not made known to any other person.

Where another MAF employee requests that the card holder undertake a transaction on his behalf it is the responsibility of the card holder to ensure that the relevant budget holder has approved the transaction before it is undertaken. The card holder is to process the transaction using the card and to ensure that the necessary documented authority for the transaction and the nominal code to which it is to be allocated is retained.

Each month the credit card company, NatWest, invoices MAF at the OCUK Finance Department for all transactions on the credit card. MAF need to settle the balance within a few days. **It is therefore important to ensure proper authorisation and coding of the payment and the individual amounts involved.** The originals of all invoices (and the credit card voucher where possible) must be passed to MAF OCUK Finance Department at the end of each month.

- The OCUK Finance Department will contact each card holder for confirmation of the expenditure and request the correct nominal code as soon as details are received. The card holder is required to respond by return;
- The card holder is required to forward the authorised and coded invoices and credit card vouchers to Ashford on 1st day of each month;

- For each transaction in excess of \$1,000 the card holder is required to contact the OCUK Finance Department as soon as the expenditure has been incurred with details of the nominal code to which the transaction is to be allocated in the programme.

It is the named card-holder's responsibility to ensure that the OCUK Finance Department receives the information set out above.

#### **1.4.10.3. Payments in Cash**

All cash payments **must** have been authorised by the "budget holder" in advance. The authorisation must be evidenced by a signature on a payment voucher. This voucher may be an invoice from the supplier or an internally generated document. The nominal code to which the cost is to be allocated is to be written on the payment voucher.

For payments above \$xx (£stg50 in the UK) the cash voucher must be countersigned by a second signatory – a bank signatory, the Programme Manager or his nominee.

Where a cash advance is made to an individual on account of costs to be met, the advance must be authorised by the "budget holder". The subsequent invoice and return of the balance of the funds must be dealt with at the earliest opportunity, on the same day if possible.

#### **1.4.10.4. Where to Charge the cost of Aircraft Engineering Resources**

Some resources required by the aircraft engineering sections, for example reference books, cannot be allocated to specific aircraft as a direct maintenance cost. Similarly, some resources required by the aircraft operations sections, for example subscriptions to map suppliers, cannot be allocated as a direct cost.

These items should be charged as a Resource using nominal code ranges R600... to R900....

## 1.4.11. Overhaul Funds

### 1.4.11.1. Overhaul Funds

Under the terms set out in the lease agreement between MAF and the local registered legal entity that operates as a MAF programme, the programme has the right to operate an aircraft owned by MAF and has the responsibility to maintain it in the condition in which it was when it was first leased to the programme. The programme **must** seek the permission of MAF prior to planning any modification to the aircraft.

Other terms set out in the Lease between MAF and the MAF programmes include those relating to the overhaul of the engine, the propeller and the airframe and avionics. In summary these terms require the programme to set aside funds for each hour flown at amounts per hour set by the OCUK Finance Department in order to cover the costs of future engine, propeller, airframe and avionics overhauls. These sums are calculated based on the flying hours for each aircraft reported to MAF and are charged to the programme each month. MAF maintains the funds and meets the costs as and when the overhauls are required. MAF undertakes to meet any shortfall on the overhaul funding when the overhaul is undertaken.

The general principles to be followed are:

- Each MAF programme is charged by the OCUK Finance Department the calculated sum per flying hour to meet the future costs of overhaul for engine, propeller, and airframe and avionics overhauls;
- The sums set aside are held in a central fund referred to as the Overhaul Reserve Fund (ORF);
- The senior engineer in each programme is responsible for ensuring that any changes in engine or propeller mounted on each airframe are reported promptly to the OCUK Finance Department;
- MAF will manage the ORF for the purpose of meeting the costs of overhaul of engines, propellers, airframes and avionics equipment;
- A report setting out the balances held in the ORF at the end of each calendar month is to be circulated regularly to the MAF Chief Engineer, the Programme Manager (Accountable Manager) and the senior engineer in each programme showing the fund balances held for each item of equipment at the end of each calendar month;
- The senior engineer is responsible for checking that the information set out in the ORF report regarding engine type and propeller type and the serial number for each mounted on each airframe are correctly stated and for promptly notifying any inaccuracies in the information to OCUK Finance department;
- Should the ORF for a particular engine, propeller or airframe be insufficient to meet the anticipated overhaul costs, the senior engineer and Programme Manager must obtain approval from the OCUK Finance Department before instigating the overhaul;
- The Programme Manager and senior engineer serving in the programme shall ensure that the engine, propeller and airframe overhauls are carried out in accordance with manufacturer's specifications as approved by the local National Aviation Authority (NAA).

**1.4.11.2 Criteria for Calculating Overhaul Set Asides**

MAF will review the level of charge to be made by the OCUK Finance Department to an MAF programme for each type of engine, propeller and airframe every six months using the following criteria:

- The overhaul set asides per flying hour will be increased by 3% at the beginning of each calendar year;
- The average costs of the most recent overhauls for each type of unit, modified by expectations of future overhaul costs will be used to determine whether the increase indicated by the calculation in point (a) above will be adequate or whether a higher or lower adjustment is required;
- The set aside funds will be calculated based on the “tbo” time approved by the CAA;

Definition:

The term “tbo” is defined as – flying “time between overhaul” in respect of individual items tracked in the ORF.

- If a turbine engine is being operated with an hour to cycle ratio of less than 1.0, the cycles will also be tracked for the purpose of replacing “cycle lived items”

The funds for the overhaul of engines and propellers will be tracked by serial number.

The following cost criteria are to be used for calculating the ORF charges:

**⇒ Engine**

Overhaul cost of engines by the overhaul facility;  
Shipping cost as invoiced by the overhaul facility;  
Rental cost of a loaner engine as invoiced by the overhaul facility;  
Cost of replacement materials specifically required by the Hot Section  
Inspection documentation;  
Cost of import duties as invoiced by customs.

**⇒ Propeller**

Overhaul costs of propellers as invoiced by the overhaul facility;  
Shipping cost as invoiced by the overhaul facility;  
The cost of providing a replacement propeller;  
Cost of import duties as invoiced by customs.

**⇒ Airframe**

Cost of replacement materials specifically required by the Check 3 Inspection documentation;  
Cost of a new paint job as invoiced by the paint shop facility with a maximum of once every 8 years;  
Cost of refurbishment of the interior with a maximum of once every 6 years.

**⇒ Avionics**

Cost for regulatory changes to avionics as required by the manufacturer, the NAA or the ASC such as frequency modulation (FM) immunity upgrades or Emergency Ground Proximity Warning System (EGPWS) installation.

## 1.4.12. Period End Procedures

### 1.4.12.1. Month-End Procedures

The Programme Manager is responsible for controlling the finances of the programme. Some responsibility for this activity may be delegated to the Programme Finance Manager.

The Finance Manager **must** design a checklist to be used at the end of each month to document and evidence the internal control checks that are completed, such as stock checks, debtors account reconciliations, cash counts, bank reconciliations, suppliers statement checks and similar controls. See section 1.5 “Periodic routines” and section 2 “Internal Control”.

The checklist is to be completed in respect of the end of month accounting control procedures, signed by the Finance Manager and filed for examination by the auditors.

### 1.4.12.2. Year-End Procedures

The following information **must** be supplied to the OCUK Finance Department as soon after 31 December each year as is possible in order to enable the MAF year-end accounts to be completed and for reports to be prepared for the auditor.

#### **STOCK**

##### ➤ **Automatic SAMS Month End Reports**

- SAMS “Stock Value Summary” report as at 31<sup>st</sup> December;
- SAMS detailed list of stock ‘on the shelf’ as at 31<sup>st</sup> December (including part number, description, unit cost, quantity and part value);
- SAMS “Rotables in Stock” report” as at 31<sup>st</sup> December.

##### ➤ **Other Information on aircraft spares stocks held at the year end date**

- A detailed list of any adjustments to stock per physical check as at 31st December but not yet corrected in SAMS “Stock Value Summary” report at 31st December.
- Where rotables and other items have been removed from aircraft and are either held in quarantine or sent for repair at 31st December but which are not included in the SAMS rotables in stock or consumables stock report, a separate Excel file giving full details of these items and their value is to be provided.
- A copy of the SAMS dataset (back-end) on CD or by e-mail to OCUK as a permanent record.
- A written or emailed statement by the senior engineer at the location of the approach to physical stock counting adopted during the calendar year and as at 31 December. (This should be emailed to the CFO and the MAF Chief Engineer before Friday 20 January in the following year).

**IT IS IMPORTANT THAT the senior engineer in each programme is required to retain the records of the physical counts (i.e. a marked working copy of SAMS stock take report) and all records of adjustments that have been made to the inventory records in SAMS. These notes must be retained until after examination by the external auditor and until at least 30 April of the following year.**



**⇒ Stocks of other items**

A note of the quantity (fuel)/number (drums and parts) and values of the stocks and the locations of the following:

- Avgas;
- Jet A1;
- Vehicle fuel;
- Heating fuel;
- Empty fuel drums;
- Vehicle maintenance spare parts;
- IT spare parts;
- House maintenance spare parts;
- Avionics spare parts (if not already included in SAMS stock).

Stationery and similar office supplies stocks do not need to be counted and valued.

**DEBTORS****⇒ Amounts owing to MAF**

- Debtors - A list of all amounts owing to MAF showing the age analysis and comment on whether the debts older than 6 months are capable of collection.
- Prepayments - A list of all amounts paid by MAF prior to 31 December but which refer to a period after 31 December – please provide details of the amount paid in advance, the period to which it refers (for example rent paid for the 6 months from October 200? to March 200?) and the nature of the transaction (for example rent for house A).

**⇒ Amounts owed by MAF**

- A list of all amounts owed by MAF for which an invoice has been received, but which was not paid at 31 December.
- A list of all amounts owed by MAF for which an invoice has not been received but for which a liability has been incurred at 31 December including estimates of the amount payable where necessary.
- Copies of all statements from suppliers (e.g. fuel suppliers and others where available) showing the amount owing at 31 December.
- A list of contributions to medical/ambulance flights showing the period each contribution covers (Bangladesh).

## **BANK AND CASH BALANCES**

### **⇒ Cash Floats – including Pilot and Staff Floats and Cash tills**

- A copy of a signed note from the holder of each float or till confirming the amount of the float or till held at 31 December.

*Note: all cash floats should be physically counted when the signature is obtained.*

- A copy of the receipts register listing used, part used and unused receipts books (including date issued, receipt sequence and holder of book).
- Details of where the un-issued receipt books are kept.

### **⇒ Bank Accounts**

- A copy of the bank statement showing the balance on each bank account at 31 December.
- A copy of the reconciliation between the balance shown on the bank statement and the balance shown in the PSF records at 31 December.
- A copy of a confirmation from the bank of:
  - the balance on each account held by them at 31 December;
  - Details of any guarantees that have been given to them;
  - Details of any securities held by the bank;
  - Confirmation from the bank that they have listed all of the accounts.
- Send to the OCUK Finance Department a copy of the letters received from the bank **AND** retain the original on file in the programme finance office.

In the first week of December each year it is important to send written requests to all banks for this information as at 31 December in order that the information can be sent to the programme shortly after the year-end.

## **OTHER RECORDS**

### **⇒ Fixed Assets**

- A list of aircraft in the possession of the programme giving details of the engine serial number and propeller serial number.
- A list of vehicles in the possession of the programme, showing the make, model, registration number and the name of the usual driver.
- A list of land and buildings occupied and whether it is rented by MAF or MAF owned.

### **⇒ PSF Database and Excel Cash Book Records**

A copy of all of the excel accounting records for the period to 31 December and the PSF dataset at 31 December is to be kept on CD in addition to sending a copy to the OCUK Finance Department.

All inter-company account details, cash books and/or accounts should be passed to the OCUK Finance Department within the usual timetable.

### 1.4.12.3. Fixed Asset Register

The fixed assets register for each programme is maintained by the OCUK Finance Department. A copy of this will be sent to each programme on two occasions in each year and the Programme Manager and Finance Manager are responsible for undertaking the following actions:

- Checking that the items listed in the fixed asset register are still in the possession of the programme;
- Checking that the items listed in the fixed assets register are in working order;
- Assessing the anticipated useful life of each asset and recording this;
- Assessing if the asset needs to be replaced in the coming 2 years and recording this.
- Checking to see if there are any assets which originally cost in excess of \$2,000 that are in the possession of the programme but which are not in the fixed asset register and recording details of these.

The results of these considerations are to be recorded and communicated to the OCUK Finance Department as soon as possible after the request is received on both occasions in each calendar year.

### 1.4.13. Other Matters

#### 1.4.13.1. References for New Employees

Written references from an unrelated third party must be obtained and filed on the personnel file of each new employee who may handle cash transactions. Where possible the references **must** be obtained from a previous employer and from the individual's pastor.

#### 1.4.13.2. Money Laundering Regulations

As an entity incorporated under English law, MAF must abide by UK laws on Money Laundering. Basically these say that if MAF:

- transmits money or cashes a cheque (*Note: that there is no minimum level*) on behalf of a third party; or
- accepts a **cash or travellers cheques** in excess of EUR15,000 (USD18,000 or GBP10,000) in payment for any services;

then MAF **must**:

- obtain satisfactory evidence of identity; and
- be reasonably sure of the source of the funds.

Satisfactory evidence of identity for an individual is

- a copy of the photo page of a passport; and
- a copy of an invoice etc which shows the usual residential address of the individual or organisation making the payment.

Evidence of identity need only be collected on the first occasion.

The evidence for identity needs to be kept in a file for that purpose and retained.

If there is any doubt over the source of the funds then the transaction must not proceed.

#### 1.4.13.3. Support Department Finances

A support department is allocated central funds to cover the expenditure agreed in the original plan. A support department manager is expected to manage the department such that the costs for the calendar year will be no more than those agreed in the original plan.

Each month, the OCUK Finance Department prepares Financial Reports for each support department.

A support department manager **must** review the results achieved and forecast expenditure for each future month. If as a result of this review additional costs are forecast the department manager is expected to arrange the department's plans and expenditure to bring the forecast back to the agreed total planned expenditure for the year.

The support department manager is responsible for revising the forecast for each month to the end of the financial year and for passing that information to the OCUK Finance Department in order that these adjustments may be incorporated in the MAF Financial Report for the relevant month.

If a support department manager is unable to plan such that the deficit is eliminated then they should refer the problem to the ET, who may be able to help in the planning or identify other funding with which to cover the deficit.

#### **1.4.13.4. Use of Restricted Funds**

Restricted funds can be used only for the purpose for which they were given by the donor. MAF is required to maintain a separate record of each restricted fund and how it is used.

Any payment which is to be charged to a restricted fund project should be charged to OCUK, via the Inter-company account, code X990 using specific project code suffices to assist management of the expenditure.

If a restricted fund project should be overspent, any costs in excess of the donation will be charged back to the programme. These recharged costs will need to be taken into account when the programme is reviewing its forecast of the end of year result.

#### **1.4.13.5. Benchmark Rate**

The benchmark rate is a notional fare, set by OCUK at the beginning of each financial year. It assumes that, if all of the planned flying in a programme was undertaken at the benchmark rate applicable to the aircraft operated in the programme then the programme would break-even (the fare income would match the direct and overhead expenses). The calculation of the benchmark rate for the year is included in the financial plan pro forma.

Fares for high-impact and other mission, church, etc flying are the benchmark rate less discount(s). Fares for NGOs or commercial flights are the benchmark rate plus a premium(s). There is no requirement that the actual fares charged are set using the benchmark rate.

In the monthly financial report the benchmark rate fares are shown less discounts, plus premiums to arrive at the actual total fares charged.

It is accepted that the benchmark rate reporting does not accurately reflect fares generated on shuttle flights, but this calculation gives an approximation currently acceptable by the ET.

The use of this method of accounting for fares enables MAF to report to donors on the discounts allowed to mission partners during the accounting period.

#### **1.4.13.6. Back-up of Computer Data**

It is essential that all financial computer data is backed up daily using an appropriate system. The method of back-up is to be agreed with the ISD for each dataset for each desktop and laptop in each location.

The back-up medium must be kept securely away from the relevant computer and in a different room or building where possible.

In addition to the daily back-up of the PSF dataset, a security back-up is to be kept at a different location from the PSF dataset.

A periodic check (once each month) is to be undertaken to ensure that the back-up is restorable.

### 1.4.13.7. Replacement of Assets

#### ⇒ Definitions

*Depreciating assets* are items of equipment and vehicles that are used by a programme or department, with the expectation that their useful life will be longer than one year. For practical purposes equipment costing less than \$2,000 is excluded from this definition. Their purchase and/or replacement is to be funded by inclusion of appropriate forecast expenditure in the annual financial plans or as a project or part of a project.

Planned expenditure on aircraft, land and buildings are not included in *depreciating assets*.

*Small equipment* describes items of equipment, tools etc that individually cost less than \$2,000.

#### ⇒ General

A Programme Manager is responsible for managing the replacement of depreciating assets and of small equipment used in and by his programme. These notes are for guidance.

The planning of replacements for depreciating assets is important to ensure that funds are available when needed and that MAF makes the best use of its resources.

#### ⇒ Depreciating Assets

Funds are available to each programme to cover the cost of replacements and details of these are circulated to Programme Managers each month. The management of these funds is a Programme Manager's responsibility.

It is important that a Programme Manager plans the replacement of his programme's depreciating assets. Funds will be transferred to a programme "Asset replacement fund" based on the plan for replacements over the following 2 years set out in the forecast for the programme prepared annually by the Programme Manager. The replacement cycle for individual items may be longer than 2 years and it is important that a Programme Manager reviews all assets each year in order that the future requirement for funds is considered.

For some items of equipment, especially the larger ones, it is difficult to plan the replacement time specifically. For example, a Programme Manager may plan to replace a generator in a particular year, but its useful life may extend for several years beyond that planned replacement date. In such circumstances a Programme Manager should plan for replacement in the earlier year, in order to ensure that funds will be available when replacement becomes necessary (unless the programme has used them for other replacements!). Assets should not be replaced merely because funds are available - they should be replaced when necessary, even if that is later than the originally anticipated date.

**⇒ Vehicles**

Vehicles should be replaced when:

- they become uneconomical to repair;
- repairs are no longer effective;
- they become unsafe;
- their “trade-in” value is expected to fall substantially.

These triggers will vary from programme to programme due to road conditions, how the vehicles are driven, availability of spare parts or repair facilities and the local market. It is not possible to set fixed age and/or mileage parameters, but Programme Managers are expected to plan realistically.

**⇒ Equipment**

Equipment should be replaced when:

- it becomes uneconomical or impossible to repair;
- repairs are no longer effective;
- it becomes unsafe.

**⇒ Small Equipment**

Planned expenditure on small equipment should be included in the Financial Plans each year (coded under Resources R300). Funds will become available when the Financial Plans for the year are accepted. Planning for such expenditure is essential and items should not be replaced merely because funds are available!

Please note that buying several items costing less than \$2,000 at the same time does not develop a “depreciating asset” even if the total cost of all items is in excess of \$2,000!

**1.4.13.8. Tactical Investments**

MAF maintains a designated fund known as the Tactical Investment Fund. This fund is available to the ET to cover the cost of necessary expenditure for which no other funds are available. It may be used where waiting for project funds would be detrimental. This fund may also be utilised in order to allow a start to be made and where project funding is unlikely to be received.

## 1.5. *Periodic Routines*

The Programme Manager and Finance Manager are responsible for ensuring that certain knowledge and control routines are reviewed and updated periodically. The frequency with which these routines are undertaken is at the discretion of the two managers but **must** be completed at a minimum of every 3 months.

The main aspects of periodic procedures are set out below:

### 1.5.1. **Programme Knowledge**

Each programme must keep a document recording the following detailed information in order to ensure that there is a continuity of knowledge.

This information must be reviewed every three months to ensure that it is up-to-date:

- An Organisation Chart for the programme showing lines of responsibility;
- A staff member list giving details of individual job responsibilities;
- Bank account details, for each bank account, showing:
  - Name of Bank;
  - Account numbers and codes;
  - Signatories.
- Cash tills and floats
  - A schedule of who holds cash tills and floats;
  - Details of the amounts in each float and the reasons for each being held.
- Purchases
  - Individuals who are authorised to open credit accounts for MAF with suppliers;
  - Individuals authorised to place orders;
  - Individuals responsible for budgets (and permitted delegation);
  - Schedule on which control checks are performed;
  - Budget Constraints set.
- Sales
  - Names of individuals in customer organisations who are authorised to order services from MAF on credit;
  - Details of customers for flying to whom subsidies are approved as standard;
  - Details of mission customers and the fare rates approved;
  - Details of NGO customers and the fare rates approved;
  - Local debt collection procedures and information on local law, regulations and practices affecting debt collection;
  - MAF staff member responsible for collecting debts;
  - Schedule on which control checks are performed;
  - Budget Constraints set.
- Stock
  - Details of types of stock owned by the programme;
  - Details of stock holding locations for each type of stock.



- Salaries – staff
  - Names of locally employed staff.
  - Individual pay rates
  - Personnel files
  - Other benefits
  - Overtime
  - Loans
- Asset registers
  - Location where the register is kept;
  - Who is responsible for keeping the register up-to-date.
- Programme financial reports
  - Monthly procedures to prepare the report;
  - Individuals who receive a copy of the report;
  - Review responsibilities;
  - Location where copies of the report are kept.
- Computer security
  - Procedures;
  - Passwords;
  - Backup routines;
  - Review responsibility.
- Incoming post:
  - General procedures;
  - Incoming post / courier procedures.
- Office safe
  - Access procedures;
  - Keyholder details.
- Insurance
  - Responsible officials authorised to communicate with the insurance company;
  - Review procedures;
  - Scope of cover e.g. analysis cash/fidelity.
- Schedule of all guarantees issued by the programme.
- Record of individuals and organisations entitled to discounted fares.
- Details of all local agreements and property rental agreements giving details of commitments undertaken in each (such as redecoration responsibilities that may give rise to financial commitments).
- Procedures to be followed when it is necessary to override the documented policies and procedures.

## 1.5.2. Funds Management Procedures

### ➔ Cash Tills

The Finance Manager (or, where the Finance Manager maintains the main cash float, the Programme Manager) must physically count the cash tills. This independent check **must** be carried out regularly.

The reviewing manager must sign the record sheet to confirm that this action has been completed.

For detailed procedures, see Section 1.4.5 “Bank and Cash”.

### ➔ Individual Cash Floats

Holders of individual cash floats must sign an acknowledgement that they are holding and are responsible for the amount of the float every three months. These signed acknowledgements are to be filed for examination by the auditors. A programme Finance Manager or Programme Manager may require this more frequently.

For detailed procedures, see Section 1.4.5 “Bank and Cash”.

### ➔ Bank reconciliations

The monthly bank reconciliation for each bank account must be reviewed every month and signed by the Finance Manager (or by the Programme Manager where the Finance Manager has prepared the reconciliation).

For detailed procedures, see Section 1.4.5 “Bank and Cash”.

### ➔ Stock counts

It is essential that tight control is maintained over stock assets. The Programme Manager or Finance Manager **must** review the stock count and reconciliation situation every 3 months or more frequently where this aspect of control is perceived to be a problem.

Where the senior engineer has agreed to undertake a regular monthly count of a selection of stock lines, the documentation of these counts **must** be examined and its adequacy for the purpose confirmed.

Where the senior engineer has agreed to make a complete stock count towards the end of the financial year, the arrangements for and completion of this task **must** be reviewed to ensure that it happens in a controlled manner.

For detailed procedures, see Section 1.4.3.6 “Stock Quantity Check Counts”.

### ➔ Debt collection

It is essential that tight control is maintained over the collection of valid debts. The Programme Manager or Finance Manager **must** review the aged debt situation every month.

It is essential that tight control is maintained over debtors ledger records. The Programme Manager or Finance Manager **must** review the individual customer accounts every 3 months to ensure that transactions are being allocated and exchange and write off differences cleared. This should be completed more frequently where this aspect of control is perceived to be a problem.

For detailed procedures, see Section 1.4.4 “Debtors and Prepayments”.

⇒ **Completeness of income**

It is essential that tight control is maintained over processing income. This may be achieved by checking that the sequence of sales invoice numbers and receipt numbers is complete in the PSF processing and identifying the reason for gaps in the sequences. The Programme Manager or Finance Manager **must** review these number sequences every month to ensure that transactions are being processed. This should be completed more frequently where this aspect of control is perceived to be a problem.

For detailed procedures, see Section 1.4.9 “Income Transactions”.

⇒ **Control of Liabilities**

It is essential that tight control is maintained over creditors ledger records. The Programme Manager or Finance Manager **must** review the individual supplier accounts every 3 months to ensure that transactions are being allocated and exchange and write off differences cleared. This should be completed more frequently where this aspect of control is perceived to be a problem.

For detailed procedures, see Section 1.4.6 “Creditors and Accruals”.

⇒ **Completeness of liabilities**

It is essential that tight control is maintained over the reconciliation of creditors ledger balances to suppliers’ statements. The Programme Manager or Finance Manager **must** review all statements received from suppliers every month.

For detailed procedures, see Section 1.4.6 “Creditors and Accruals”.

### 1.5.3. Checklist

A checklist designed by the Finance Manager including those points set out above, any others that may be relevant, **must** be prepared and completed every month and signed by the Programme Finance Manager.

The completed signed monthly checklists are to be kept in an appropriate file and retained for examination by the auditors.



# **MAF Europe**

## **Finance and Related Matters Reference Book**

### **Section - 2 Internal Control**



## **2.1. Introduction**

Internal control is the name given to the systems that are operated internally within the organisation in order to ensure that MAF can demonstrate to both its donors and beneficiaries that their property is safe. Internal control procedures can also give comfort to staff as they can provide some protection from suspicion.

MAF has developed a summary of the basics of internal control. The controls set out in this section of the reference book are mandatory for each programme and department within MAF. They aim to ensure that internal control of all financial activities is as good as it can be in the circumstances that prevail in each location.

## 2.2. ***“Basics” of Financial Internal Control***

### 2.2.1. **Minimum Internal Control Processes**

The minimum processes for the application of MAF internal financial controls are set out below. Programme Managers and Finance Managers may establish more frequent checks or more detailed controls.

- Written confirmation in the form of a receipt is given for cash, cheques and bank drafts received;
- Expenditure is within the financial (and therefore tactical) plan accepted by the MAF Board;
- Expenditure is authorised by the “budget holder”;
- All bank payments and transfers are authorised by 2 signatories;
- All cash payments above a maximum sum of \$100 or local equivalent (this limit may be agreed jointly at a lower sum by the Programme Manager and Finance Manager in each programme) are authorised by 2 signatories;
- Reconciled bank balances are reviewed regularly;
- Cash tills and floats are checked regularly;
- Cash floats are kept on an “imprest” basis.

More details of these minimum processes are set out below.

#### 2.2.1.1. **Confirmation is given for all Cash, Cheques and Bankers Drafts received**

Where funds are received by MAF a sequentially numbered “receipt” **must** be provided to the customer or donor. A counterfoil or a copy of the receipt **must** be retained as a part of MAF accounting records.

See Section 1.4.9.1 for detailed information regarding the use and recording of receipts.

#### 2.2.1.2. **Expenditure is within the agreed financial (and therefore tactical) plan**

The tactical plans and the financial plans that are developed from them at the beginning of each year as revised by the MAF programme and department management teams are the basis on which decisions are taken by MAF personnel prior to authorising all expenditure to be undertaken by MAF programmes and departments.

The overall financial aim of each programme is to break-even after carrying its share of central costs and after receiving an allocation of central funds; the overall aim for each support department is to break-even after receiving its share of central funds.

A financial plan for each programme and department is accepted by the MAF Board prior to the start of each year within the framework of the consolidated financial plans. Each month the income and expenditure for the month and cumulative for the year to date are to be reviewed, compared with the plan. Any material variances reported and the reasons they arose **must** be identified. Corrective action should be taken where appropriate.



The forecast result for the year for each programme **must** be reviewed and revised as appropriate every month to reflect the latest known facts, with action being taken to bring it back to break-even.

### **2.2.1.3. Expenditure is authorised by the “budget” holder**

In order to control expenditure within a financial plan the person responsible for each part of the financial plan (called in this reference book “the budget holder”) must authorise it.

In this reference book the term “invoice” means any voucher or other ORIGINAL document, receipt etc. given by the supplier.

In the plan and after expenditure each payment is charged to a nominal code in PSF. The budget holder responsible for control of that nominal code must check the payment and sign the invoice (or attached note) to confirm that it is correct and it is in order for it to be paid and write the nominal code number to which the payment is to be allocated.

### **2.2.1.4. All bank payments are authorised by 2 signatories**

The term “Bank payment” includes the cheques, transfers and other instructions to a bank.

All cheques must require two signatories.

All bank electronic transfers must be authorised by two signatories, even though the actual transfer maybe made by “approved” person.

Bank electronic transfers above \$40,000 must be processed by two approved people.

See Section 1.4.5.2 “Payment Instructions to a Bank” for details of other arrangements that may be made where the sum to be paid is below \$100.

### **2.2.1.5. All cash payments above \$(to be agreed for each programme) are authorised by 2 signatories**

It is recognised that in many locations MAF operates in a cash-based society and it is important that tight control is maintained over MAF cash funds. Members of local national staff may handle what for them are large sums of cash. Procedures **must** be implemented in order to provide some measure of protection for MAF staff.

See Section 1.4.10 “Expenditure Transactions” for detailed information regarding cash control systems.

### **2.2.1.6. Bank balances are reviewed regularly**

Section 1.4.5.5, “Bank Reconciliations”, of this reference book sets out the processes for reconciling MAF’s records of movements on each bank account and the resultant balance with the bank records (bank statement).

See section 1.4.5.6 “Bank Reconciliations” for detailed information regarding bank account control systems.

### 2.2.1.7. Cash balances are reviewed regularly

#### ➤ Cash Tills

The main cash till used in a programme will usually be maintained in the programme finance department. The cash balances held in each till must be regularly counted and the balance confirmed and agreed to that shown in PSF.

See Section 1.4.5.3 “Cash Tills” for details of the cash till control systems

#### ➤ Cash Floats

Each cash float should be kept on the *imprest* system (as set out in section 1.4.5.4 “Cash Floats” of this reference book. The cash balances held in each float must be regularly counted and the balance confirmed and agreed to that shown in PSF.

Holders of individual cash floats must sign an acknowledgement that they are holding and are responsible for the amount of the float every 3 months.

See Section 1.4.5.4 “Cash Floats” for details of the cash float control systems.

### **2.3. *Annual Report to the Board***

The Board's Empowerment Policy (N° 10) requires that each programme and OCUK must complete its Internal Control Questionnaire annually (Appendix A.1)

This questionnaire has been developed from the "self help checklist" published by the English Charity Commission in its booklet "Internal Financial controls for Charities"

The questionnaire will normally be completed in conjunction with the OCUK Finance Department.

## **2.4. Audit**

### **2.4.1. External audit**

Under English law MAF must be audited by an independent professional auditor each year. Part of that external audit process involves visits to some programmes by the auditor.

After such visits the auditor writes a specific report to the board setting out any problems or internal control weaknesses that have been noted. This report is not a part of the formal statutory audit work but the comments arise from situations noted during the audit process. This report is extremely useful to MAF.

Programmes which have a local registration may need to be audited under their local jurisdiction.

### **2.4.2. Internal audit**

The external auditor cannot visit every programme and the audit work is governed by specific schedule and purpose. Such external audit cannot substitute for an audit visit by MAF staff, from the OCUK Finance Department or another programme.

It is the intention of the CFO that each programme should receive an internal audit visit annually. The purpose of such internal audit visits will be to:

- work through the Internal Control Questionnaire with the Programme Manager or the programme Finance Manager;
- review the Periodic Controls evidenced in the file of checklists;
- test check that the processes set out in the Finance Section of the reference book are being complied with;
- clarify any issues raised by the Programme Manager or the Finance Manager;
- review the general insurance annual report prepared by the programme management team.

# **MAF Europe**

## **Finance and Related Matters Reference Book**

### **Section - 3**

#### **Board Policy Statements – Chief Executive Empowerment Policies**



### **3.1. Introduction**

The Board of MAF is responsible for monitoring the financial situation of MAF throughout each financial year. It achieves this by setting Empowerment Policies for the CEO and monitoring the financial performance of the charity against these criteria.

The CFO is responsible for ensuring that the monthly financial reports produced for MAF demonstrate the performance of the charity within the Empowerment Policies.

The Chief Executive Empowerment Policies are:

1. Finance;
2. Operational and financial planning;
3. Financial condition – operational funds;
4. Asset protection;
5. (This policy was deleted in May 1977);
6. Capital expenditure;
7. Investment and treasury policy;
8. Restricted funds;
9. Emergency reserve;
10. Internal financial control;
11. Operation of bank accounts;
12. Internal borrowing;
13. Risk management and control.

The detailed Empowerment policies are set out in the section of the reference book.

## **3.2. MAF Board Policy Statements - Chief Executive Empowerment**

### **3.2.1. Policy 1: Finance**

The Chief Executive Empowerment Policies shall be monitored in accordance with the following:

1. A Financial Report including the Statement of Financial Activities and the Balance Sheet, together with an up-to-date cash flow projection of UK controlled balances, and forecast of the Statement of Financial Activities. A statement showing capital expenditure to date and budget for the year shall also be tabled.
2. A written report using the Financial Condition Empowerment (Policy 3) as a guide.
3. A written report of the salient points relevant to the Financial Report.

*Note: If for any reason the above information is not available in time for advance circulation then the report prepared for the latest month available shall be circulated, and the delayed report shall be tabled at the meeting.*

### **3.2.2. Policy 2: Operational and Financial Planning**

1. With respect to operational and financial planning the Chief Executive may not jeopardise the financial integrity of the Fellowship or cause the trustees to be in violation of their responsibilities for prudence and ethics in the planning and conduct of operations.
2. Accordingly he may not, without the express approval of the Board or its nominated sub-committee:

Cause or allow an operational or financial plan which:

- a. deviates from the Board-stated priorities in its allocation;
- b. plans operational expenditure of more funds than are reasonably projected to be received in that year or subsequent years;
- c. fails to plan for the replacement of depreciating capital assets;
- d. contains too little detail to enable the preparation of reasonably accurate projections of income and expenditure, the separation of capital and operational items, cash flow and audit trails;
- e. reduces net assets below a level to meet the Fellowship's liabilities;
- f. does not provide less than \$100,000 to meet unforeseen contingencies.

Enter into a loan or overdraft agreement on behalf of the Fellowship.

Allow the Fellowship to enter into any financial commitment where early termination would result in a financial penalty in excess of US \$15,000.



### 3.2.3. Policy 3: Financial Condition – Operational Funds

With respect to operating the Fellowship in a sound and prudent financial manner the Chief Executive may not cause or allow the Fellowship to be put at risk financially, or cause the trustees to be in violation of their responsibilities. Accordingly he may not, without the express approval of the Board or its nominated sub-committee:

1. Expend more operational funds than have been received in any financial year, in supporting operations within agreed priorities.
2. In relation to programme working capital allow:
  - a. debtors to exceed 50% of the value of fares invoiced in the previous 3 months;
  - b. cash and bank balances to exceed the creditors.
3. Allow, at any point in the year, Finance and Resource Centre controlled working capital to fall below 20% of the latest 12 months' operational central expenditure and programmes' 'Overhead' expenses.
4. Allow the aggregate value of aircraft spares to exceed by 10%, the total set by the Aviation Services Department.

*Note: Operational Funds are defined as Unrestricted Funds not otherwise Designated.*

### 3.2.4. Policy 4: Asset Protection

With respect to proper stewardship of the Fellowship's assets the Chief Executive may not risk losses beyond those necessary in the normal course of operating the Fellowship's charitable purpose. Accordingly he may not, without the express approval of the Board or its nominated sub-committee:

1. Fail to provide a prudent level of property and liability insurance.
2. Fail to take all reasonable steps to minimize fraud, losses and liability claims.
3. Make investments other than as provided for in the Treasury Policy (Policy 7).
4. Allow abuse, misuse, damage to or theft of assets.
5. Allow the disposal of assets at less than market value.

### 3.2.5. Policy 5: Fares

This policy was deleted in May 1997.

### 3.2.6. Policy 6: Capital Expenditure

With respect to proper control of capital expenditure the Chief Executive, without express approval of the Board of Directors or its nominated sub-committee, may not incur capital expenditure:

1. In excess of funds:
  - a. specifically given as restricted funds
  - b. available in the Capital Fund, or which would require a transfer of US\$150,000 into the Capital Fund.
2. For items which are not required for the normal operation of the programme.
3. Which, while otherwise fulfilling #1 and #2 above, exceed US \$150,000 per expenditure.
4. Without reporting all purchases when this policy is monitored.

### 3.2.7. Policy 7: Investment and Treasury Policy

With respect to funds not immediately needed the Chief Executive may not invest them:

1. In a manner other than with regard to:
  - a. the basic principles set out in the Charity Commission publication "Investment of Charitable Funds";
  - b. their security;
  - c. optimising the return;
  - d. the anticipated cash flow requirements of those funds.
2. In investments or deposits not approved by the Board of Directors or its nominated sub-committee.

#### Approved Investments and Deposits

The Business Committee approves the following investment/deposits for use under the Investment and Treasury Policy (Chief Executive Empowerment 7)

Deposits with

Barclays Bank plc  
Lloyds Bank plc  
Midland Bank plc  
National Westminster Bank plc  
Royal Bank of Scotland plc  
National Savings Treasurers Account  
Charities Aid Foundation.

Investments with Common Investment Funds

*Note: provided advice is taken prior to investment.*

### 3.2.8. Policy 8: Restricted Funds

With respect to the restricted funds and assets the Chief Executive may not:

1. Spend restricted funds for a purpose other than that for which they were restricted.
2. Fail to add interest earned to the unspent funds.
3. Fail to consult the donor before disposing of or moving restricted assets outside of the restriction before the end of its normal economic life.
4. Fail to report the details of funds held for more than 24 months.

### 3.2.9. Policy 9: Emergency Reserve

The Chief Executive may not reduce the portion of the overhaul provision funds held in **cash** below the amount agreed by the board or its nominated sub-committee, to act as an Emergency Reserve, except in an emergency.

*Note: At its meeting held March 1999 the board agreed that the Emergency Reserve portion of the overhaul funds should be \$300,000.*

### 3.2.10. Policy 10: Internal Financial Control

In order that MAF can reflect the best practices on corporate governance and financial control the Chief Executive may not fail to:

1. Operate within the policies established by the board; and
2. Review annually the "Self Check List" published in the UK Charity Commissioners publication "Internal Financial Controls for Charities"; and
3. Prepare an annual statement on MAF's internal financial control.

### 3.2.11. Policy 11: Operation of Bank Accounts

In order that MAF comply with the trustees' responsibility regarding the operation of bank accounts the Chief Executive may not fail to:

1. Invite the trustees to pass an appropriate resolution where the account opening process (or the amendment process) requires a copy of a resolution passed by the directors (trustees) to be presented to the bank prior to the account's being opened.
2. Report to the Business Committee details of bank accounts opened (or amended) by a programme manager or the Chief Executive (in the UK) where a resolution of the trustees is not required by the bank.
3. Have signatories on bank accounts which are not specific roles (eg Company Secretary or Programme Manager).

### 3.2.12. Policy 12: Internal Borrowing

In order to meet development needs of the fellowship capital projects may be financed by temporary borrowing from the funds set aside for future overhauls but the CEO may not:

1. Borrow except out of that part of the fund not required for 12 months from the date of borrowing.
2. Borrow without the amount borrowed being repaid within 12 months.
3. Enter into a loan or overdraft agreement on behalf of the Fellowship, except for short-term loans to National Group members to support their fundraising activities.

### 3.2.13. Policy 13: Risk Management and Control

In order that MAF can reflect the best practices on corporate governance and risk management and control the Chief Executive may not fail to:

1. Operate within the policies established by the board.
2. Review annually the guidelines as published in the UK Charity Commissioners publication "Charities and Risk Management.
3. Implement a risk management framework for MAF Europe (including its programmes) which allows management and the trustees to:
  - identify and assess the major risks that apply to MAF Europe and its programmes;
  - evaluate what action needs to be taken;
  - make decisions about how to control risks;
  - make decisions on periodic monitoring, assessment and reporting; and
  - develop an overall risk policy.
4. Prepare reviews of the risk register for the board to consider within its annual planning cycle.

### 3.3. *Chief Executive Empowerment Monitoring Timetable*

<b>EMPOWERMENT POLICY</b>	<b>MONITORING</b>
<b>Financial Planning - 2</b>	Acceptance of the financial plans for the following year at the November board meeting
<b>Financial Condition – Operational Funds – 3</b>	Monitoring Report Summary presented in the monthly management financial reports, reviewed by the Finance Advisory Group
<b>Asset Protection - 4</b>	Within the insurance audit and the risk assessment reviews presented at the November board meeting and at other times as requested to the board.
<b>Capital Expenditure - 6</b>	Monitoring Report Summary presented in the monthly management financial reports, reviewed by the Finance Advisory Group
<b>Investment &amp; Treasury Policy - 7</b>	Monitoring Report Summary presented in the monthly management financial reports, reviewed by the Finance Advisory Group
<b>Restricted Funds - 8</b>	Presented annually at the May board meeting
<b>Reserve Funds - 9</b>	Presented annually at the May board meeting as part of the review of the Trustees Report and audited accounts for the previous year.
<b>Internal Financial Control - 10</b>	Presented annually at the November board meeting
<b>Operation Of Bank Accounts - 11</b>	Presented annually at the May board meeting
<b>Internal Borrowing - 12</b>	Monitoring Report Summary presented in the monthly management financial reports, reviewed by the Finance Advisory Group
<b>Risk Management And Control - 13</b>	Presented annually at the November board meeting



# **MAF Europe**

## **Finance and Related Matters Reference Book**

### **Section - 4 Aviation Insurance**





## **4.1. Introduction**

MAF has 4 types of insurance for its aircraft – hull insurance, 3<sup>rd</sup> party liability insurance, passenger liability insurance and war risk insurance. MAF must not fly any aircraft unless it is properly insured.

Our insurance year end is 30 May each year. Currently we use a specialist aviation insurance broker (Willis – based in London who arranges the cover with the appropriate underwriters). In many of the countries in which MAF operates liability cover must be provided locally. The local insurance certificates (referred to as “fronting certificates”) are arranged centrally by our brokers.

It is important that all of our aviation complies with the insurance provisions. All flights must be “legal” within the requirements of the local NAA rules.

All of the insurance is aircraft specific. Generally all MAF aircraft will be insured for full flight and war risks, but in some circumstance the cover may be restricted (e.g. no passenger cover for a ferry flight; no liability cover when the aircraft is on the ground for a long period due to an accident or for other reasons).

## 4.2. ***Pilot Qualification***

Our insurance permits “any qualified pilot approved by the Insured” to fly a MAF aircraft. Approval of pilots is recorded in the MAF Operations Manual, Part A, Section 5 but the pilot must have the appropriate licences and type ratings for the country of operation.

## 4.3. ***Hull Insurance***

MAF’s insurers accept MAF’s valuation of the aircraft. The value that is used is usually what it would cost to replace the aircraft on a “like for like” basis.

The premium is based on the value, with a higher % premium for the lower value aircraft.

## 4.4. ***Liability – Passenger***

Passengers are covered under the terms of MAF’s “Conditions of Carriage”. Crew are not covered by the passenger liability provisions.

It is MAF policy that **ALL** passengers on board a MAF aircraft **MUST** have been given a ticket **BEFORE** boarding the aircraft. The ticket will show, amongst other information, MAF’s “Conditions of Carriage” (quoted at the end of this section). The Operations Manual includes provisions that each passenger must be seated in an aircraft, that seat **must** be equipped with a seat belt and passengers **must** wear the seat belt when the aircraft is in motion. The Operations Manual includes provisions for securing passengers being the subject of “medevac” and provisions for securing freight.

For an international flight MAF restricts its liability to SDR100,000. (SDR = Special Drawing Rights. The value of the SDR is set by the International Monetary Fund with reference to a basket of 4 currencies (Euro, Japanese yen, Pound Sterling and US dollars). In September 2005 it had a value of SDR1=US\$1.48

For internal flights the limit may be further restricted under local law.

Any claims by passengers will be handled by the underwriters.

## 4.5. ***Tickets and Conditions of Carriage***

Tickets issued by MAF are the principle way in which we give passengers details of the Conditions of Carriage.

## 4.6. ***Crew***

The crew on a MAF aircraft are not covered by MAF’s passenger liability insurance. If an individual on board is NOT listed as “Crew” on the manifest they **must** have a passenger ticket and will be treated as a passenger. The aircraft must have passenger liability insurance in place.

#### **4.7. *Liability – 3<sup>rd</sup> Party***

Larger aircraft operated by MAF are insured for a total liability risk of US\$20m for each occurrence and the 5 passenger seat aircraft for US\$15m for each occurrence. Note, however, that this is the combined 3<sup>rd</sup> party and passenger limit. The passenger cover is limited (see above) with the balance being for 3<sup>rd</sup> party risks.

#### **4.8. *War Risk***

The definition of War Risk includes strikes, riots, civil commotion, etc as well as categories of sabotage and hijacking. The hulls would not be included for risks such as these if the additional cover were not in place.

MAF has arranged separate insurance for hull war risks. The premium is relatively low.

Liability war risks are protected as part of the general liability cover by a % mark-up on the premium.

#### **4.9. *Ground Risks Only***

When it is known that an aircraft will be “on the ground” for a reasonably long period (internally within MAF assumed to be a period in excess of one month) the aircraft can be insured for “Ground Risks Only” (GRO). The premium for that period is reduced but the aircraft cannot fly. The Programme Manager **must** inform the CFO when the cover may be reduced to this level.

The insurance status of an aircraft can be changed very quickly if the need arises and Programme Managers **must** inform the CFO immediately of any changes in the status of an aircraft that may require a change in the insurance cover **or** may enable a saving to be made on the insurance premium (for example to reduce the cover to GRO).

The insurer has agreed that the aircraft engine may be “run-up” whilst the aircraft is insured for GRO.

#### **4.10. *Aviation Products and Hangar-Keeper’s Liability***

MAF is covered for losses arising from work done or from the supply of aircraft parts and fuel to third party aircraft. MAF is also covered for damage to third party aircraft whilst in the care of MAF and on the ground.

### 4.11. *Other*

Insurance maintained by MAF covers a range of smaller, other matters including:

The insurers will reimburse the following expenses arising out of an “occurrence”:

- Medical expenses for crew, passengers and 3<sup>rd</sup> parties subject to limits;
- Funeral and repatriation expenses;
- Costs of accompaniment of an injured/deceased passenger;
- Stocks of spare parts, tools etc. are covered up to a maximum of \$1m for any one occurrence, but we do need to give our insurers notice of major parts (an engine for example) being shipped;
- Cost of search and rescue operations for insured aircraft, and/or foaming the runway to prevent or reduce loss (subject to a maximum of 10% of the aircraft’s value or \$100k);
- Hangar keepers liabilities are covered for losses arising from work done on 3<sup>rd</sup> party’s aircraft, including “products liability”;
- There is **no insurance cover** for the organisation of an air-display;
- 2 small adults are permitted to occupy one seat if they have individual seat belts and the manufacturers total weight specifications are not exceeded;
- Children are permitted to be seated on a passenger’s lap or 2 children occupying one seat. Our brokers have confirmed that the individual seat belt rule (see section 4.4 “Liability – Passenger” above) does not apply to this clause;
- Cover is held for “incidental medical malpractice error or mistake by a physician, surgeon, nurse, medical attendant or other person performing medical services but only for or on the behalf of the Insured in the provision of a medical emergency”;
- An aircraft can be taxied by a “licensed mechanic”.

### 4.12. *Use of Other Aircraft*

As MAF aircraft are individually insured MAF maintains **NO** cover for aircraft owned by third parties (including MAF US and AirServ).

Any use of third party aircraft must comply with the provisions of the MAF Operations, Manual Part A, Section 13 “Leasing” of aircraft, and appropriate insurance must have been arranged.

Programme Managers are responsible for ensuring that the CFO is informed of any such arrangements in advance of their being contracted.

# **MAF Europe**

## **Finance and Related Matters Reference Book**

### **Section - 5 General Insurance**



## 5.1. **Introduction**

In addition to aviation insurance MAF needs insurance to protect it from risks that cannot be eliminated.

The Programme Manager is responsible for considering the maximum level of insurance cover maintained. This needs regular careful consideration. The level of insurance held **must** be enough to cover the largest risk assessed.

## 5.2. **3<sup>rd</sup> Party Insurance (Public Liability Insurance)**

Each MAF programme **must** maintain this type of insurance cover. This insurance protects MAF from any non-aviation claims made by 3<sup>rd</sup> parties who may have been injured (or consider that they have been injured) when on MAF premises or through negligence by MAF or any member of local or International Staff.

This insurance cover is currently bought locally by members of the programme staff.

The Programme Manager is responsible for ensuring that all necessary cover is maintained and for notifying the CFO of the level of cover maintained and the period of the cover.

## 5.3. **Motor**

### ➤ **Liability Insurance**

Each road vehicle owned by MAF **must** be insured for 3<sup>rd</sup> party risks. This cover **must** include passengers in the vehicle. In most countries it is the vehicle which is required to be covered and in at least one country it is the driver.

The Programme Manager is responsible for ensuring that appropriate cover is maintained and for informing the CFO of the cover that is in place and the period for which the cover is maintained.

The maximum level of insurance cover maintained needs regular careful consideration. The level of insurance bought must be enough to cover the largest risk assessed – consider the cost of replacing a 4x4 vehicle or of killing/injuring a tourist.

### ➤ **Loss or Damage Insurance**

Road vehicles owned by MAF **must** be insured for loss or damage.

MAF owned vehicles can be included in the MAF vehicle self-insurance scheme. In this scheme a programme can “insure” its vehicles for its chosen value (replacement value is suggested). An internal “premium” is charged (2½% of value pa at present) - there is a \$350 excess (sometimes known as a deductible) for each and every claim.

Each Programme Manager may choose to arrange commercial insurance to cover the vehicles owned by MAF and operated in his/her programme.

The Programme Manager is responsible for ensuring that appropriate cover is maintained and for informing the CFO of the cover that is in place and the period for which the cover is maintained.

## 5.4. Premises

### ➔ MAF owned Premises

Premises owned by MAF **must** be insured for loss or damage caused by:

- Fire;
- Flood;
- Storm damage;
- Damage caused by intruders;
- Riot damage;
- Malicious damage;
- Accidental damage.

The premises must be insured for their full reinstatement value, as often an insurer will average out a claim (if MAF had only insured a building for ½ its value then the insurer would only pay ½ a claim).

That value needs to include clearing away damaged materials and local taxes as well as the cost of rebuilding.

The Programme Manager is responsible for ensuring that appropriate cover is maintained and for informing the CFO of the cover that is in place and the period for which the cover is maintained.

### ➔ Premises rented to MAF

Premises rented by or leased by MAF **must** be insured in accordance with the rental/lease agreement. If the rental/lease agreement does not include insurance requirements, what is expected in the event of the incidents listed in the section above relating to “MAF owned Premises” should be clarified in writing with the landlord and appropriate cover including “3<sup>rd</sup> Party” or “public liability” insurance **must** be arranged.

The Programme Manager is responsible for ensuring that appropriate cover is maintained and for informing the CFO of the cover that is in place and the period for which the cover is maintained.



## 5.5. **Contents**

The contents of premises which MAF occupies **must** be insured against:

- Fire;
- Flood;
- Storm damage;
- Damage caused by intruders;
- Riot damage;
- Malicious damage;
- Accidental damage.

If possible the insurance cover should be for replacing each damaged/stolen item with new equivalents.

The Programme Manager is responsible for ensuring that appropriate cover is maintained and for informing the CFO of the cover that is in place and the period for which the cover is maintained.

## 5.6. **Cash**

Cash owned by MAF **must** be insured to the correct level for:

- Cash in offices during the day;
- Cash in offices overnight;
- Cash in transit.

It is important that the conditions set by the insurer are fulfilled. For example: is there a requirement that cash is to be kept in a safe? Or, is there a requirement as to how cash is transported to and from the bank?

The Programme Manager is responsible for ensuring that appropriate cover is maintained and for informing the CFO of the cover that is in place and the period for which the cover is maintained.

## 5.7. **Employment**

MAF has a real liability for any staff that may be injured or killed through negligence at work by MAF or any member of staff. In some countries insurance for such risks is compulsory, although the level of cover achievable may be inadequate.

MAF must arrange cover for an adequate level of insurance to protect against these risks. The appropriate level of cover will vary but if there is no legal minimum the cover must be a multiple of an employee's annual salary. The legal minimum may be exceeded if it is thought to be too low.

The Programme Manager is responsible for ensuring that appropriate cover is maintained and for informing the CFO of the cover that is in place and the period for which the cover is maintained.

### **5.8. *International Staff (IS)***

MAF sets no requirement that International Staff have defined levels of insurance cover for personal insurances including medical and evacuation insurance. Such cover is for the IS member and their seconding group to decide. It is, however, essential for a record to be kept of the emergency insurer contact telephone numbers in order that programme staff can assist in an emergency.

If the IS member can provide no insurance details as to who is responsible for arranging emergency help with appropriate contact numbers the Programme Manager is responsible for notifying the CFO and HR Department..

### **5.9. *Annual Report***

The insurance cover carried by each programme will be audited annually. This task may be undertaken as a part of an internal audit or other visit, or by email.

# **MAF Europe**

## **Finance and Related Matters Reference Book**

### **Section - 6 Legal**



## 6.1. *Introduction*

In addition to all of the regulations relating to aviation and financial matters, there are two main areas where MAF must stay legally healthy. These are the areas of local registration and matters relating to any contracts and agreements with International staff and 3<sup>rd</sup> parties.

## 6.2. *Local Registration*

MAF has a “legal” presence in each of the countries in which we operate:

<b>Bangladesh</b>	MAF Europe has appointed MAF Sweden Air Support to be its agent. MAF - Air Support is a Swedish foundation that is registered as an NGO in Bangladesh.
<b>Chad</b>	MAF Europe is registered.
<b>Kenya</b>	The English charity “The Mission Aviation Fellowship“ is registered in Kenya as “Mission Aviation Fellowship – Kenya”. It acts as agent for MAF Europe in Kenya.
<b>Madagascar</b>	MAF Europe is registered as an NGO.
<b>Mongolia</b>	MAF operates through a Mongolian joint venture company called Blue Sky Aviation.
<b>South Africa</b>	MAF Europe has been appointed to manage Mission Aviation Fellowship, the South African association and its operating company Mission Aviation Services.
<b>Tanzania</b>	The English charity “The Mission Aviation Fellowship” is registered in Tanzania. It acts as agent for MAF Europe in Tanzania.
<b>Uganda</b>	MAF Europe is registered as an NGO in Uganda.

Local registrations usually need to:

- be renewed periodically – such dates must be timetabled and monitored;
- be audited annually – we must ensure that we gain as much value from local audits as possible;
- have accounts filed annually – the latest date must be timetabled and monitored.

The Programme manager is responsible for undertaking an annual review of all aspects of local registration to ensure that it continues to be the most appropriate for the programme.

### 6.3. **Contracts and Agreements**

A register of contracts and agreements **must** be maintained. This record should record details of current contracts, the parties involved, the subject matter, the relevant dates and the financial commitment involved.

A contract is written proof of an agreement made between those involved. Every contract to which MAF is a party **must** be finalised in writing and the document **must** be signed by all parties involved. One fully signed copy of every such contract **must** be retained by MAF and kept securely.

An agreement does not need to be in writing to be enforceable – but it is easier if all of the details are set out in writing. All agreements entered into by MAF **must** be set out as written contracts and signed by all parties to avoid confusion and to provide proof of the agreement should this be necessary.

#### ⇒ **Under which law should contracts be written? (Jurisdiction)**

It is usual for the legal system, under which a contract would be enforced if the need should arise, to be stated in the contract. From the MAF point of view it is preferable if contracts are written under English law. MAF is an English charitable company and we have a better understanding of English law than the laws of some other countries.

#### ⇒ **Limitations in contracts**

The board's Empowerment Policy N<sup>o</sup> 2 does not allow MAF *“to enter into any financial commitment where early termination would result in a financial penalty in excess of US\$15,000”* (November 1999)

Each programme must consider therefore each contract or agreement that it makes to ensure that, if board approval is needed, full details are referred to the CFO at Ashford, **before** the agreement is finalised.

#### ⇒ **Who should sign on behalf of MAF?**

First, establish which MAF entity is entering into the agreement. If it is a locally registered organisation (see section 6.2 “Local Registration” above) then an “official” of the local organisation must sign all contracts or agreements.

Contracts or agreements made on behalf of MAF must be signed by a director of MAF or by MAF's “Company Secretary”. Where such circumstance exists, the Programme Manager is responsible for contacting the CFO **before** the contact or agreement is finalised

It is an increasingly common practice for each page of a contract to be initialled by those signing it.

#### ⇒ **Safe-keeping**

It is important that the signed copies of contracts and agreements are kept securely in MAF premises and that a full copy of the signed document is sent to the CFO at Ashford.

It is also important that the register of contracts and agreements is kept securely in MAF premises and that a full copy is sent to the CFO at Ashford.

# **MAF Europe**

## **Finance and Related Matters Reference Book**

### **Section - 7 Risk**





**7.1.      *Introduction***

To be added

## **7.2.      *Assessment of Risk***

To be added

### **7.3. *Report to the Board***

To be added



# **MAF Europe**

## **Finance and Related Matters Reference Book**

### **Appendices**



# **MAF Europe**

## **Finance and Related Matters Reference Book**

### **Appendix A Internal Financial Control Questionnaire**





# A.1 Internal Financial Control Questionnaire

Name of programme \_\_\_\_\_

<b>Accounts requirements</b>	Yes	No	Comment	Action	By:
Are proper books and records kept of all transactions?					
<b>Organisational structure</b>	Yes	No	Comment	Action	By:
Is a plan held showing the programme's organisational structure?					
Are lines of authority and reporting laid down in writing and communicated to all staff?					
Is any delegation policy laid down in writing and communicated to all staff?					
Is there segregation of tasks to provide automatic "double check"?					
Are all staff given proper training?					
Is professional advice taken where appropriate?					
<b>Financial Plan</b>	Yes	No	Comment	Action	By:
Are financial plans prepared and approved by relevant managers to cover both income and expenditure?					
Are actual results measured against plans with the relevant manager at regular intervals?					
<b>Incoming post - outgoing post</b>	Yes	No	Comment	Action	By:
Is incoming post opened in the presence of 2 responsible people?					
Are all incoming cheques and cash recorded immediately?					
Are entries verified by someone other than the person making the entry?					
Is the rotation of post-opening staff carried out?					
Is the security of unopened incoming and outgoing mail ensured?					
<b>Banking and custody procedures</b>	Yes	No	Comment	Action	By:
Are incoming receipts banked promptly and regularly (at least weekly)?					
Is safe custody of all valuables held on premises ensured?					
Are keys of safe or cash box signed for?					
Is insurance held to cover contents of safe or cash box?					
Is all incoming money banked and no amounts held over for petty cash "feeding"?					
Is a written statement of banking and custody procedures held for information of staff?					
Are there good security arrangements for transporting cash?					
Do non-finance staff receive cash on behalf of MAF?					
Are receipts issued for all cash received?					
Are there controls over the use of receipts issued by MAF?					

	Yes	No	Comment	Action	By:
<b>Money held for third parties</b>					
Do you hold or transport cash for third parties?					
Is there a written agreement detailing that MAF is not liable for loss?					
Is money belonging to the charity held separately from that of any individual trustee/staff members?					
<b>Checks on income records</b>					
Are regular checks made to ensure records are accurate?	Yes	No	Comment	Action	By:
Are regular checks made to ensure no discrepancies between records?					
Are checks made by someone other than the original recording officer?					
Are any restrictions placed on donated income identified and observed?					
<b>Controls over expenditure</b>					
Is all expenditure properly authorised?	Yes	No	Comment	Action	By:
Is supporting documentation (e.g. invoices) required for all expenditure?					
Are cheque books etc kept in secure place with access only by nominated persons?					
Is the preparation of payments undertaken by someone other than the authorising officer?					
Is a written statement of policy and practice on payment procedures available to all staff?					
<b>Controls over purchases</b>					
Are invoices checked against orders made?	Yes	No	Comment	Action	By:
Are records kept of orders placed but not carried out?					
Is the quality and quantity of goods supplied checked against orders/delivery notes?					
Are all items of stock counted physically and the records adjusted as appropriate at least once a year?					
Are authority levels for placing orders documented?					
Are payments only made against original invoices?					
<b>Payment by cheque</b>					
Do all cheques/instructions to the bank for payment require two signatures?	Yes	No	Comment	Action	By:
Are signatories who are related able to sign a cheque together					
Is there a policy that a nominated signatory may not sign a cheque made payable to themselves?					
Is there a policy of not signing blank cheques?					
Are any monetary limits placed on an individual's signing recorded in writing?					
Is every effort made to minimise cash payments?					
Is all cheque expenditure recorded in the cash book and noted with the relevant cheque number?					
Are all stubs completed at time of payment?					
Are cheques signed only with documentary evidence of the nature of the payment?					

	Yes	No	Comment	Action	By:
<b>Payment by cash</b>					
Are all payments by cash made from an "imprest" cash float?					
Is the cash float drawn from the bank and not from incoming money?					
Do all payments have supporting documentation?					
Is supporting documentation authorised by someone other than the cashier or claimant?					
Are amounts of claim entered on a (petty) cash voucher?					
Are all payments recored in a (petty) cash book at the time of the transaction?					
Are all cash receipts recorded in the (petty) cash book at the time of receipt?					
Are regular checks made of (petty) cash records and the balances by someone other than the cashier?					
<b>Wages and salaries</b>					
Are personnel records kept and held separately from wages records?	Yes	No	Comment	Action	By:
Are salary levels properly authorised and recorded?					
Are checks made to verify existence of employees?					
Are cash payments avoided wherever possible?					
If wages are paid in cash are they signed for?					
Are staff employed under a proper contract of employment?					
Are local income tax and social security regulations complied with?					
<b>Control over fixed assets</b>					
Is a list held and updated regularly?	Yes	No	Comment	Action	By:
Are assets checked regularly to ensure still in good repair and of use to MAF?					
Is the use of fixed assets reviewed annually (to ensure put to best use and serving MAF's interest)?					
<b>Bank accounts</b>					
Please attach a list of all bank accounts operated by the programme, showing roles of signatories, and the current name					
Are secure records held of all accounts?					
Are unused cheque books held in a secure place?					
Are regular bank reconciliations carried out?					
Are instructions to open or close accounts properly authorised and/or reported to trustees?					
Are checks made to ensure that there are no dormant accounts?					
Are bank statements regularly inspected by the manager?					
Are cross checks made between bank statements and income and expenditure records?					

	Yes	No	Comment	Action	By:
<b>Computer Security</b>					
Are back-ups of hard disks taken at least weekly?					
Are the back-up copies kept in a location away from the relevant computer?					
Is the accounts software restricted to authorised people?					
Is the payroll software restricted to authorised people?					
<b>Insurance - SEE INSURANCE AUDIT QUESTIONNAIRE INSTEAD</b>					
<i>Vehicles - please attach a list of vehicle replacement values for insurance purposes</i>					
<i>Vehicles - are all vehicles insured for 3rd party risks?</i>					
<i>Vehicles - please give details of the 3rd party insurance cover</i>					
<i>MAF's Assets - please give details of the insurance cover for MAF's assets, cash etc</i>					
<i>MAF's Liabilities - please give details of non-aviation 3rd party insurance carried by the programme</i>					
<i>MAF's Liabilities - please give details of employers liability/workman's compensation insurance for local employees</i>					
<i>Personal Liabilities - Do all International Staff have personal liability insurance?</i>					
<i>Staff medical liability - is there a published limit to the amount of expenses for which MAF is responsible?</i>					
<i>Staff medical liability - please give details of the limit</i>					
<b>General</b>					
Are currency and exchange control regulations adhered to?					
What is the system for keeping abreast of relevant local legislation					
If items are imported duty-free is there a system for ensuring that the duty is paid when the item is sold?					

# **MAF Europe**

## **Finance and Related Matters Reference Book**

### **Appendix B Example of a Periodic Routines Check List**



## B.1 Example of a Periodic Routines Check List

**Programme:**..... **Month end date:**.....

A copy of this checklist is to be completed at the end of each month.

A scanned copy of the completed checklist is to be sent to the Finance Department at MAF Operations Centre, Ashford within 8 working days to the end of each month.

Action	Completed by:
<b>Bank account management procedures</b>	
1.1 Local currency bank current account statement has been reconciled to the Programme records at the month end date.	..... on Date: .....
1.2 Local currency bank deposit account statement has been reconciled to the Programme records at the month end date.	..... on Date: .....
1.3 USD bank current account statement has been reconciled to the Programme records at the month end date.	..... on Date: .....
1.4 USD bank deposit account statement has been reconciled to the Programme records at the month end date.	..... on Date: .....
1.5 The reason why any lodgement has not appeared on the relevant bank statement has been considered.	..... on Date: .....
1.6 The reason why any cheques written have not appeared on the relevant bank statement has been considered.	..... on Date: .....
1.7 All payments from all bank accounts are supported by a relevant voucher that has been authorised by an appropriate Budget Holder.	..... on Date: .....
1.8 All support vouchers are filed in sequence.	..... on Date: .....
1.9 No bank account includes "balancing entries".	..... on Date: .....
<b>Cash management procedures</b>	
2.1 Local currency cash account balance has been reconciled to the amount of cash held at the month end date.	..... on Date: .....
2.2 USD cash account balance has been reconciled to the amount of cash held at the month end date.	..... on Date: .....
2.3 GBP cash account balance has been reconciled to the amount of cash held at the month end date.	..... on Date: .....
2.4 EUR cash account balance has been reconciled to the amount of cash held at the month end date.	..... on Date: .....
2.5 All cash withdrawals from a bank account appear in the accounting records.	..... on Date: .....
2.6 All cash sums withdrawn from all cash accounts are supported by a relevant voucher that has been authorised by an appropriate Budget Holder.	..... on Date: .....
2.7 All support vouchers are filed in sequence.	..... on Date: .....

Programme:.....

Month end date:.....

**Action**

**Completed by:**

**Cash management procedures**

- 2.8 No cash account includes "balancing entries".  
 .....  
 on Date: .....
  
- 2.9 A list has been prepared of all floats at the month end date. The balances held on these floats have been counted with the float holder and the float holder has signed the balances list to indicate his agreement of the recorded balance.  
 .....  
 on Date: .....
  
- 2.10 Any differences on the float balances have been accounted for and the costs allocated to an appropriate budget.  
 .....  
 on Date: .....
  
- 2.11 The random surprise count of the cash floats was completed by the Finance Manager / Programme Manager on  
 .....  
 Date: .....

**Debtors management procedures**

- 3.1 Significant deposits held for customers are held in a separate Debtors Ledger account from day to day transactions.  
 .....  
 on Date: .....
  
- 3.2 Individual Debtor items over 4 months old have been discussed with the Programme Manager and action agreed to be taken to collect the sum due.  
 .....  
 on Date: .....
  
- 3.3 Individual Debtor items over 6 months old have been discussed with the Programme Manager and action to be taken to collect the sum due reviewed. These balances have been provided for as potential Bad Debts.  
 .....  
 on Date: .....
  
- 3.4 Individual Debtor items over 9 months old have been discussed with the Programme Manager and action to be taken reviewed. These balances have been written off as Bad Debts.  
 .....  
 on Date: .....
  
- 3.5 Credit balances on the Debtors ledger have been considered and action to be taken agreed.  
 .....  
 on Date: .....
  
- 3.6 Statements of the balance due from customers at the end of the month have been issued either electronically or in document form.  
 .....  
 on Date: .....
  
- 3.7 Statements of the balance with International Staff at the end of the month have been issued either electronically or in document form.  
 .....  
 on Date: .....

**Purchase ledger balances and amounts to be accrued**

- 4.1 A list has been prepared of those suppliers who issue statements. Statements received from those suppliers have been agreed to the Programme accounting records.  
 .....  
 on Date: .....
  
- 4.2 Items on the suppliers statement that remain unpaid have been authorised by the Budget holder.  
 .....  
 on Date: .....
  
- 4.3 Items on the suppliers statement that remain unpaid and have been authorised by the Budget holder have been processed into the Purchases ledger or accrued for the month.  
 .....  
 on Date: .....



Programme:..... Month end date:.....

**Action**

**Completed by:**

**Purchase ledger balances and amounts to be accrued  
(continued)**

4.4 All expenditure incurred during the month but unpaid at the month end date is accrued for.

.....  
on Date: .....

This checklist has been reviewed by the Programme Manager with the Finance Manager and it is agreed that the necessary management control procedures have been completed and evidenced.

Signed: .....  
**Finance Manager**

Signed: .....  
**Programme Manager**



# **MAF Europe**

## **Finance and Related Matters Reference Book**

### **Appendix C Detailed Table of Contents**



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