

BROADCLYST PARISH COUNCIL - SEGREGATION OF DUTIES

CONTENTS

Segregation of Duties	1
Introduction	1
Staff.....	2
Cash/Cheque Handling (Receipts, Payments, Reconciliation).....	3
Income	5
Investments and Treasury	6
Purchasing	7
Payroll	7
Non-Current Assets.....	9
Inventory.....	4
Petty Cash	10

INTRODUCTION

The concept of Segregation of Duties is to separate the major responsibilities of authorising transactions, custody of assets, recording of transactions and reconciliation/verification of transactions for each business process. From a segregation of duties perspective, the completion of more than one of these functions would be considered performing "incompatible duties". So, no one employee should have responsibility for completing two or more of these major responsibilities. But, staff limitations may make this impractical, and that is when compensating controls must be considered.

The following matrices have been developed to help the Council ensure proper segregation of duties and identifying areas where segregation of duties is lacking. They cover the most common processes (Cash, Petty Cash, Investments and Banking, Purchasing, Payroll, Stock, Fixed Assets and General Ledger).

When completing these forms, if you identify employees who perform two or more tasks for each business process area, you will need to determine if those tasks would be considered a performance of "incompatible duties". If so, the Council will need to consider compensating controls or revise duties.

Broadclyst Parish Council should always strive for the optimum degree of segregation of duties. However, due to limited staff sizes it is recognised that optimum segregation of duties cannot be achieved. In such circumstances the Council; should at least strive for an acceptable(minimal) level of segregation of duties which, when combined with compensating controls, will minimise the impact of control deficiencies and exposure to errors or irregularities. A minimal level of segregation of duties could possibly be achieved by verifying that no one employee performs more than two of the "incompatible duties". For example, an employee might perform the authorization and verification/reconciliation functions, but they should not record the transaction or maintain custody of assets. A compensating control could be managerial/Council review.

STAFF

Initial	Name	Position
AH	Angie Hurren	Clerk/RFO
NC	Natasha Curwood	Deputy Clerk/RFO
HC	Helen Cutting	Administrator
AR	Andy Ricketts	Maintenance

CASH/CHEQUE HANDLING (RECEIPTS, PAYMENTS, RECONCILIATION)

	1 st Control	2 nd Control	Compensating Control(s)
Receives Cash/Deposits	HC	AH	At public events, income is received by two committee members
Reconciles Cash Receipts to Daily Cash	HC	AH	
Prepares Bank Deposit	HC		
Takes Deposit to Bank	HC		Sole responsibility for handling cash/banking
Records Deposit Transaction into Accounts Package	AH		
Reconciles Deposits to amounts recorded in General Ledger	AH		
Reviews Cash Reconciliations	FINANCE COMMITTEE		COUNCIL
Prepares payments of suppliers (checks evidence of delivery, checks invoice)	AH	NC	
Related Party Payments	Non-related Officer	Council approval	3 rd party check in addition to usual 2 Member sign-offs
Prepares Payment Schedule	AH	NC	
Approves bank payments or cheques for payment (and affixes signature)	FINANCE COMMITTEE		COUNCIL
Mails supplier cheques	NC		BACS is the preferred method of payment
Initiates transfers to suppliers or employers	AH	NC	
Approves transfers to suppliers or employees	BANK SIGNATORIES	COUNCIL	Third signature and third-party check
Creates payroll file and cheques or bank transfers	AH	PAYROLL	
Posts expenses to ledger	AH	NC	
Reconciles expenses on general ledger	FINANCE COMMITTEE		
Reviews General Ledger reconciliations	FINANCE COMMITTEE		COUNCIL
Reconciles Bank Statements	FINANCE COMMITTEE		COUNCIL
Approves Bank Reconciliations	FINANCE COMMITTEE		COUNCIL

Identified Best Practices

1. It is recognised that best practices for separating duties for the receipting function would be to ensure that the responsibilities of receiving cash, deposit preparation and posting activity to the general ledger are separated.

2. It is recognised that best practices for the payment of funds would be to ensure that the responsibilities of preparing supplier invoice packages, preparing cheque/BACS requests, approving cheques/BACS for payment and mailing cheques are separated.
3. The Bank Reconciliations are prepared by someone who is not involved in cash receipts. Also, bank reconciliations are always approved by the Finance Committee or Council. Members are not involved in the daily cash activities.
4. As Council's staff size limits segregation of duties, the following compensating control helps limit the severity of control weaknesses:
 - a. Some duties, such as taking deposits to the bank, are performed by administrative staff not involved in accounting-related functions.

INVENTORY

1 st Control	2 nd Control	Compensating Control(s)
NC	AR	
NC	HC/AR	
AH	NC	
AH	HC	
FINANCE COMMITTEE		COUNCIL
FINANCE COMMITTEE		COUNCIL
FINANCE COMMITTEE		COUNCIL
AH	NC	COUNCIL

Receives goods from Supplier

Performs physical stock counts

Modifies stock records

Reconciles physical stock counts to inventory records

Reconciles stock records to Asset Register

Reviews reconciliation of stock records to Asset Register

Disposes of obsolete (scrap) stock

Records adjustments to stock records and Asset Register

Identified Best Practices

1. It is recognised that best practices suggest that employees who receive goods from suppliers should not be involved in purchasing functions.
2. It is recognised that best practices suggest that employees who have access to make modifications to stock system should not have access to make adjustments to Asset Register.
3. Physical stock counts are performed by someone who does not have custody of stock where possible.
4. Stock counts are carried out by at least two employees
5. Reconciliation of stock system to physical counts and the Asset Register are performed by someone not responsible for maintaining the stock system where possible.
6. On stock disposals, employees are not able to initiate and approve disposals.

INCOME

	1 st Control	2 nd Control	Compensating Control(s)
Payment in Person			
Receives income	HC		At public events, income is received by two council/committee members
Issues receipt	HC & forwards copy	AH	
Records income in ledger	AH	INCOME/EXPENDITURE REPORTING	COUNCIL
Prepares banking	HC		
Takes receipt to bank	HC		
Agrees receipt to bank	BANK RECONCILIATION	FINANCE COMMITTEE	COUNCIL
Receipt by post			
Records receipts through post	AH		
Records income to ledger	AH	INCOME/EXPENDITURE REPORTING	COUNCIL
Passes cheque to Administrator	AH		Only Administrator banks monies
Takes receipt to bank	HC		
Agrees receipt to bank	BANK RECONCILIATION	FINANCE COMMITTEE	COUNCIL
Receipt in bank			
Records income in ledger	AH	INCOME/EXPENDITURE REPORTING	COUNCIL
Agrees receipt to bank	BANK RECONCILIATION	FINANCE COMMITTEE	COUNCIL

Compensating controls

1. Invoices
 - a. Regular reporting of accounts raised
 - b. Regular reporting of accounts unpaid and overdue
2. Credit Notes – the issue of a credit note is treated as if it were a payment requiring authorisation
3. Write offs are agreed by the Finance Committee and reported to Council

INVESTMENTS AND TREASURY

Initiates request to open bank accounts
 Authorises opening of new bank accounts
 Adds new account information to General Ledger
 Initiates investment transactions

Reviews and approves investment transactions
 Posts investment activity to the General Ledger
 Reconciles Investment Accounts to amounts reported on General Ledger
 Maintains investments (i.e. stock certificates, cd's, etc)

1 st Control	2 nd Control	Compensating Control(s)
AH	NC	2 SIGNATORY APPROVALS
FINANCE COMMITTEE	COUNCIL	Staff cannot authorise.
AH	NC	
AH		
COUNCIL		2 SIGNATORY APPROVALS
AH		
BANK RECONCILIATION	FINANCE COMMITTEE	COUNCIL
NC		

The Council currently has one investment: £50,000 with the CCLA Properties Fund

Identified Best Practices

1. Only full Council is able to authorise opening of new bank accounts.
2. Treasury type activities such as opening bank accounts and authorising signatories is not performed by employees.
3. Employee entering investment activity into the General Ledger is not be same person that authorised the transactions.
4. Employee responsible for reconciling investment activity is independent of investment process.

PAYROLL

Responsible for Modifying Employee Master File
 Approves modifications to Employee Master File
 Prepares payroll file for processing
 Approves payroll file
 Generates Payroll Cheques or bank transfers
 Distributes Payroll cheques or initiates direct deposits
 Reviews and approves final payroll report
 Records payroll expense in General Ledger
 Reconciles payroll to General Ledger

1 st Control	2 nd Control	Compensating Control(s)
AH		
Staffing Committee		COUNCIL
AH		
Staffing Committee	2 SIGNATORY APPROVALS	COUNCIL
AH	NC	
Bank signatories	2 SIGNATORY APPROVALS	
Finance Committee	NON-SIGNATORY CHECK	COUNCIL
AH		
AH	Finance Committee	COUNCIL

Identified Best Practices

1. No one employee has total responsibility for modifications to the Master file. The Clerk initiates the changes agreed by the Staffing Committee, with the Finance Committee reviewing then the Council ratifying the change. The Clerk, as the employee who initiated the change, then makes the changes and informs payroll, with copy to Chairman and bank signatories.
2. When a third-party service provider is used, best practices would suggest that changes to Master file data should be communicated to the third party by an employee who is not involved in recording of payroll activity, preparing reconciliations or check distribution. As this is not possible as only the Clerk has access to the Master file, all bank signatories and the Chairmen of the Council/Finance/Staffing committees are copied into the correspondence.
3. Processing of payroll is separated from approval function.
4. Reconciliations are performed by Members who do not have ability make journal entries or otherwise modify payroll.
5. When staff size limits segregation of duties, the following compensating controls may help limit the severity of control weaknesses:
 - a. Have supervisory level employee who is not directly involved with the payroll process review and approve payroll after final processing. This control measure is carried out by the Council each month.
 - b. If an employee involved in the payroll process also maintains the Employee Master file, a report of all payroll changes is issued by the Staffing Committee and reviewed by the Council.

PURCHASING

	1 st Control	2 nd Control	Compensating Control(s)
Initiates Purchase Order	AH		
Agrees preferred suppliers/contractors	FINANCE COMMITTEE	2 SIGNATORY APPROVALS	COUNCIL
Receives goods from Supplier	NC	HC	
Modifies or Reconciles Inventory Records / Asset Register	AH	FINANCE COMMITTEE	COUNCIL
Approves Supplier Invoices for Payment	MINIMUM OF THE FINANCE COMMITTEE	2 SIGNATORY APPROVALS	COUNCIL
Reconciles Invoices once paid	BANK RECONCILIATION	FINANCE COMMITTEE	COUNCIL

Identified Best Practices

1. It is recognised that for most effective segregation of duties, employees involved in the purchasing function should not have payments-related responsibilities.
2. When staff size limits segregation of duties, the following compensating controls may help limit the severity of control weaknesses:
 - a. Payments are checked and reported to The Council for accuracy, paying particular attention to payments to new suppliers.
 - b. The Council regularly identifies and reviews its preferred suppliers and contractors

NON-CURRENT ASSETS

Initiates Purchase of Capital Assets
(This may be covered in Purchasing Area above)

Approves Purchase of Capital Assets

Approves Capital Asset Disposals

Disposes of Capital Assets

Records Capital Asset additions and disposals in Asset Register

Performs periodic physical counts of Capital Assets

Reconciles physical Capital Asset counts to Asset Register

Adjusts Asset Register

Maintains Asset Register (updates file for asset categories, useful lives and valuation and use)

*only where it is within Officers delegation

1 st Control	2 nd Control	Compensating Control(s)
AH	NC	
AH*	FINANCE COMMITTEE	COUNCIL
FINANCE COMMITTEE		COUNCIL
AH	NC	COUNCIL
NC	AH	COUNCIL
NC	HC	COUNCIL
AH		COUNCIL
NC	AH	COUNCIL
FINANCE COMMITTEE		COUNCIL

Identified Best Practices

1. Asset Register: files of asset categories are agreed by the Council; employees who are authorizing, recording and reconciling fixed assets cannot change categories
2. Employees responsible for authorising purchases report same to Council and record transactions in fixed assets ledger.
3. Periodic physical counts are not performed by person(s) with authorisation or record keeping responsibilities where possible.
4. Adjustments to the assets register are reviewed and approved by the Council
5. When staff size limits segregation of duties, the following compensating controls help limit the severity of control weaknesses:
 - a. Where purchasing and disposition procedures cannot be adequately separated, reports of all fixed asset additions, deductions and disposals are reviewed and approved by the Finance Committee and reported to The Council
 - b. If recording and reconciliation procedures cannot be adequately separated, The Finance Committee reviews a report of all adjustments made to help substantiate accuracy of recorded amounts.

PETTY CASH

NB: Broadclyst Parish Council does not operate a petty cash system.

1 st Control	2 nd Control	Compensating Control(s)

Disburses Petty Cash

Reconciles Petty Cash

Replenishes Petty Cash fund

Posts Petty Cash Activity to General Ledger

Identified Best Practices

1. Generally, one person should be designated as petty cash custodian. This person disburses petty cash and turns in vouchers to have funds reimbursed.
2. Petty cash custodian should not have access to post activity to general ledger or replenish petty cash fund.
3. Petty cash counts should be made on periodic basis by someone independent of petty cash process.

Segregation of Duties Recommended to Council for approval

Date: 03.06.2024

Signed:

Print:

Minute ref: 24/076vi

Next review date: May 2025 (or sooner if required in order to effect any changes in staff or council procedures)