

**STRICTLY PRIVATE & CONFIDENTIAL**

The Board of Trustees  
Lorica Trust Limited  
30 Cambridge Road  
Hove  
East Sussex  
BN3 1DF

Our Ref: MR/KE/J6647

Your Ref:

Date: 23<sup>rd</sup> January 2008

Dear Sirs,

**Review of Internal Systems of Financial Control**

Further to your instructions following the meeting of the Board of Trustees on the 12<sup>th</sup> January 2008, we have undertaken a review of all the Charity's internal systems of financial control.

On the whole, our review showed that the charity has a good system of internal control including appropriate segregation of duties and internal review.

In the attached appendix we have detailed the internal system which was described to us by your finance manager (FM), and financial assistant (FA). We tested certain of these controls and observed the operation of others. The appendix highlights all of the weaknesses we have identified in the financial control system. Most of these are minor weaknesses, but the more significant weaknesses are summarised below:

**1 Access to internet banking**

- 1.1 The FM and the FA both have individual access to the Barclays online banking facility. Either of them can action bank transfers up to a £50,000 limit.
- 1.2 Whilst these individuals are considered trustworthy, a person's circumstances can change and personal pressures could lead to the misappropriation of funds from the Barclays account.
- 1.3 We recommend that the benefits of internet banking are weighed up against the risks and that access is restricted to the FM as the senior employee. In addition it may be appropriate to decrease the maximum payment limit.

**2 Post opening procedures**

- 2.1 The post is currently opened by one person.

2.2 There is the risk that any cash donations received in the post could be misappropriated.

2.3 We recommend that the post is opened by two people, one opening, one recording.

### **3 Authorisation of all purchase invoices**

3.1 Some purchase invoices are paid without visible authorisation on the invoice.

3.2 This could result in erroneous invoices being paid.

3.3 We recommend that cheque signatories are advised not to sign cheques for invoices that are not visibly authorised.

### **4 Verification of fixed assets**

4.1 The charity maintains a register of the fixed assets which it owns. However no regular verification is undertaken to ensure that the asset is still held.

4.2 This could lead to unidentified misappropriation of assets or an overstatement of assets in the charity's accounts.

4.3 We recommend that periodic checks are made to confirm the existence of recorded fixed assets.

We have prepared this report to assist the Board in their duties as trustees. The trustees are responsible for the charity's system of internal control and for reviewing its effectiveness. This forms part of their larger responsibility of risk management.

We understand that this report will be made available to certain of the charity's third party stakeholders.

Yours faithfully,

**Parkers**

## LORICA TRUST

## APPENDIX

### Current System of Financial Control

### Identified Weakness

#### 1 Income

1.1 When the post is received it is placed unopened into the relevant pigeon hole.

The FA, collects the post from the Management/Admin pigeon hole. She will then open the post, by herself, and date stamp the contents.

*The post should be opened by two people to ensure that all donations received are recorded.*

1.2 Any donations are photocopied and the copy goes to the donations administrator (DA) to enter onto the donor database, thank the donor and record any gift aid due. The FM, will prepare a gift aid claim every six months from the gift aid schedule produced by the DA. Some individuals phone the charity to check that a donation has been received. The FA is responsible to let them know whether it has been and explain the delayed thank you letter.

*This is acceptable if two people open the post, but it is an inadequate segregation of duties for the FA to record the donation and to deal with any unacknowledged donors.*

1.3 The donations are then placed by the FA into a green box in the cabinet, which is locked when not in use. The donations are banked when there are sufficient to warrant a visit to the bank, typically once a week, but daily at peak periods like December.

*The green box is not itself lockable – the cabinet is full of accounts file so will often be left open during the day. The use of a lockable box would be preferable.*

1.4 The FA enters the income onto a weekly spreadsheet identifying where the amounts should be posted onto Sage. At this stage, donations received in respect of restricted/designated funds are posted to the appropriate restricted fund account. Once posted the audit trail numbers are written onto the spreadsheet printout.

1.5 In addition to cash and cheques received, the charity can take credit card payments and Charities Aid Foundation (CAF) cheques. Credit card payments, made by phone or by

completing a form as part of a fundraising activity, are cleared by Barclays; the CAF cheques are sent off to the Foundation and are subsequently credited to the bank account. Neither of these are 'paid in' to the bank but both are recorded on the weekly income spreadsheet. Rather than being posted to the bank account on Sage however, they are posted to credit card and CAF control accounts to be cleared once the receipt is identified on the bank statement. If the occasion arose, a mis-named cheque received would be treated the same way, to be cleared once a bankable cheque was received in its stead.

1.6 Some rent and donations are given to the front desk, both as cash and cheques.

1.7 The person on the front desk records the receipt on a Kalamazoo sheet, showing date, amount and details. A carbon copy of the entry is produced and given to the payer as a receipt.

1.8 The money received is then put into the safe via a one way 'vent'.

1.9 Each Monday, the FA takes the Kalamazoo sheet for the week and empties the safe. Only the FA and the maintenance manager have keys to the safe.

1.10 The FA will then agree the contents of the safe to the sheet and deal with the money as for money received in the post. The FA highlights in pink the items on the Kalamazoo sheet which she has agreed and dealt with.

1.11 The front desk also receives money from people who have hired the church hall. This money is for the Church not the charity. It is recorded on the Kalamazoo sheet as church money. The FA holds the money until it is collected by the church representative on Tuesdays, but does not obtain a receipt.

1.12 Rents receivable are entered onto Sage by the Rent Administrator (RA) from a weekly bed list which she has produced from the daily lists created by the project workers. She checks that the totals on the bed list agree to the total posted

*When the FA passes on the money collected on behalf of the church she should obtain a receipt to prove it has been passed on.*

on Sage, but makes no verifiable mark to record the control. The RA has restricted access to Sage – she is only allowed to post to the sales ledger. There are two elements to rent – that part that is covered by housing benefit and that part that must be paid by the individual. These are posted to two separate sales ledger accounts.

*The RA should initial the bed list as evidence that the total agreed to Sage.*

1.13 New residents complete forms for their project worker for basic information, housing benefit claim and a Department of Works & Pensions (DWP) form. The basic information form is used by the RA to set up the sales ledger accounts. The RA will take the housing benefit claims to the Council to ensure the rents are covered as soon as possible. The DWP forms are submitted to enable the personal part of the rents to be deducted at source from the resident's benefit payments.

1.14 Every four weeks the DWP make a payment to the charity and provide a remittance sheet showing which residents the sum relates to. Currently two residents have a DWP deduction in excess of the rent they owe so that they can get draw the cash from the charity at a later date. The Council sends letters to both the resident and the charity advising how much housing benefit will be paid.

1.15 The FA produces a spreadsheet of rent receipts, be it housing benefit, DWP or occasional cash or cheques received for the RA to then post onto the sales ledger.

1.16 Each month statements are produced and given to the key workers for distribution to the residents. This will show any outstanding rents whether due to delayed housing benefit or unpaid DWP deductions. The key worker acts as the debt collector, except in sensitive situations where the administration department will prepare the appropriate letters and eviction notices.

1.17 The FM undertakes a bad debt review every six months.

*A more regular review of the outstanding balances would allow the FM to exert a more timely pressure on the collection of debts.*

1.18 Other income includes the Supporting People grant from Brighton & Hove Council which is notified at the start of the year and then paid in thirteen equal sums, once every four weeks, by direct credit. Similarly the Silver Lady charity pays the same monthly sum by direct credit. Also some donations are paid by monthly standing order. The FA produces a monthly spreadsheet of direct credits which she then uses to post onto Sage.

1.19 The FA raises any sales invoices in respect of seconded staff – the invoices are not specifically checked but are few in number and generally for the same amount. Errors would be identified during the management accounts process.

*If the level of invoices raised increases, checking and authorisation may be appropriate.*

1.20 The FM raises the small number of sales invoices in respect of domiciliary care at East Clayton Farm.

## **2 Expenditure**

### **Petty Cash**

2.1 There are four petty cash tins:

Front office for the project workers, float £74.50 (although only £6 is held in the tin at any one time as this money is considered vulnerable)

Key workers, float £100.00

Trust office, float £375.50

Farm, float £100.00

2.2 Any expenditure from out of petty cash is recorded in the petty cash books and receipts left in the tin.

2.3 On a weekly basis the FA will collect the tins and the petty cash books for each tin. She creates a spreadsheet of the expenditure for posting onto Sage and reconciles to the physical cash balance. Any discrepancies are brought to the finance manager's attention.

*Ideally petty cash amounts should be counted by two people together, but the low level of cash held probably does not warrant this.*

2.4 The floats are topped up from the Trust office tin which itself will be topped up from cash drawn from the bank.

## **Bank payments**

2.5 The departmental managers make purchases, either by verbal order or direct purchase. Whilst there is no defined limit to their expenditure, all are aware of their departmental budget set at the start of the year and know that overspends will be looked at adversely by the trustees.

2.6 When the purchase invoices are received in the post, they are passed to the relevant manager for authorisation to pay. The invoices are then passed back to the FA who enters them onto Sage every two weeks. A grid stamp is used on the invoice showing the purchase ledger account number, the nominal ledger code and an identifier (PI circled) that it has been posted as a purchase invoice on Sage. There are no numerical checks made of the invoice. Sage is split into a large number of numerical codes to allow accurate disclosure of expenditure (and income) relevant to specific projects or restricted funds.

*Suppliers do occasionally make numeric errors on invoices. We suggest invoices are checked when received, and then initialled as such.*

2.7 Supplier statements are agreed by the FA to the purchase ledger and any discrepancies followed up.

## **Expense claims**

2.8 Only certain individuals are able to make expense claims. There is a standard form for this which covers mileage and out of pocket expenses. Receipts must be supplied and the claim must be authorised by a superior or other manager.

2.9 The FA codes the expenses and enters onto Sage purchase ledger and prepares a cheque as for other purchases.

2.10 The maintenance manager holds a float which is reimbursed when he gives receipts to the FA, who then completes an expense claim which is authorised by the strategic manager.

2.11 At the month end the invoices to be paid are passed with the completed cheques to the cheque signatories. The cheque signatories review the invoices for authorisation and then sign the cheque.

*Some paid invoices were missing an authorisation signature. Cheque signatories should refuse to sign cheques for unauthorised invoices.*

2.12 The cheque requires two signatories, being any two from:

- Chairman of the Trustees
- Chief Executive
- Finance Manager
- HR Manager
- Supported Housing Manager
- Strategic Project manager

2.13 The FA then posts the cheque payments onto Sage, circling the PP on the grid stamp on the invoice to show it has been entered onto Sage as a purchase payment. She will then also stamp the invoice "PAID". Invoices are then filed alphabetically.

2.14 The charity does not currently make any direct payments but online access has recently been set up which allows either the FM or FA to operate the account over the internet. The payment limit is £50,000 per transaction.

*The ability for one individual to transfer money out of the bank account is a system weakness. If this facility is required it should be restricted to senior staff.*

2.15 The FA reconciles the bank accounts at the end of the month, agreeing Sage to the bank statements for all the accounts held, except for the Bank of Scotland deposit account which is only reconciled a month in arrears as the statement is not received until the 24<sup>th</sup> of the following month. Typically the only transactions are interest received and possibly a transfer to/from the current account. The bank reconciliation checks that the sales ledger receipts have been correctly posted by the RA.

*If possible the statement should be obtained earlier to ensure that the recorded bank balance is correct.*

2.16 Any old outstanding items on the bank reconciliation are discussed by the FM and FA.

### **3 Management Accounts**

3.1 The FM produces management accounts on a monthly basis, usually within a week or two of the month end. The FA uses a month end checklist to ensure that she has

undertaken all the necessary procedures to make Sage accurate and up to date. This checklist is not checked by the FM but it is assumed that any anomalies would be identified by his review of the figures. The FM does rely on Sage to keep the sales ledger and purchase ledger in balance with the sales ledger control account and the purchase ledger control account, when erroneous journal postings could make the control not equal the ledger.

*The FA could add a task to her checklist of agreeing sales and purchase ledgers to control accounts.*

- 3.2 The FM adjusts the prepayments and accruals each month to ensure that the management accounts are a more accurate tool for decision making.

#### **4 Payroll**

- 4.1 The HR manager produces a form for a new employee or for any changes to existing employees. The HR manager determines an individual's salary level which is typically based on a grading system. The trustees will decide at their May meeting whether annual uplifts, in addition to the grade progression rises, will be paid.
- 4.2 The employee form is then passed to the FA to enter onto Sage payroll as standing data, initialled once entered.
- 4.3 All temporary staff complete timesheets which are approved by the manager. Full time staff complete overtime sheets if appropriate which again are approved by the manager.
- 4.4 These are presented to the FM at the month end with the employee forms and he produces a spreadsheet using this data to calculate the gross salary for each employee. Both the employee form and the timesheets are initialled by the FM once utilised.
- 4.5 This spreadsheet is then given to the FA to enter onto Sage payroll to calculate the net pay due and the PAYE liability. The FA prints off the Sage payroll reports, completes the Barclays Payflow direct payment fax and passes these, with his original spreadsheet, to the FM. The FM agrees the gross on his spreadsheet to the sage report, the net pay on the sage report to the Payflow fax and signs the fax as authorisation. All staff are paid in this manner.

4.6 The FM does a month end payroll reconciliation and produces a set of payroll journals for the FA to enter onto Sage.

## 5 Other controls

5.1 Street collections are very rare, but when they occur sealed collection tins are used which are opened in the office.

5.2 There are procedures in place to provide holiday cover – in the FA's absence the FM undertakes the banking and runs the payroll; in the RA's absence, the FA will prepare the bed list and take the housing benefit forms to the Council but won't post the sales ledger items.

5.3 A fixed asset register is maintained on Sage. However no physical checks are made to the register.

*Regular physical verification should be undertaken to ensure that assets are not misappropriated or overstated in the accounts.*

5.4 A back up is taken of Sage every night.

5.5 Six years of accounting records are retained.