

## **EXTRACT FROM NALC NEWSLETTER No7 FINANCIAL CONTROLS**

All parish and town councils should have in place effective internal controls for approving and making payments. The provisions should be set out in the council's Financial Regulations. There should be a clear audit trail, linking the decision to incur expenditure, through the approval of the bill for payment, to the accounting of the final transaction.

The first step is making a decision to spend money. Such decisions must always be made at a meeting of the council (or committee, or by an officer) under an agenda item that specifies the business to be transacted. Any other decision to spend money is unlawful and open to challenge in the courts. No expenditure may be incurred if it will exceed the amount provided in the revenue budget for that class of expenditure unless the council by resolution approves unspent and available amounts to be moved from another budget heading as appropriate.

Once a decision to spend has been made, and the goods or services have been received by the council (and this has been checked), the clerk should prepare a schedule of payments requiring authorisation and present it to the council (or committee) under a specific agenda item. The schedule should be presented together with the relevant invoices and the council should authorise payment by resolution. A detailed list of all authorised payments should be included in the minutes.

Once the payment has been authorised the next step is the physical transfer of money. Prior to last year that meant writing out cheques and having a minimum of two councillors sign. Now, following the repeal of section 150(5) of the Local Government Act 1972 a council may make whatever

arrangements it chooses for making payments, subject of course to such arrangements being in accordance with the proper practices as set out in Appendix 10 of the Practitioner's Guide (electronic copy available from LRALC on request). In practice it means that councils can now use online banking arrangements, particularly where the account allows for dual or triple authority on payments. For example, Unity Trust Bank ([www.unity.co.uk](http://www.unity.co.uk)) offers an account where the clerk/RFO can set up payments and then two councillors have to log in to approve the payment before it goes off.

Councils may also make use of banker's standing orders and direct debits to make regular payments such as utility invoices or clerk's salary subject to having appropriate internal controls in place. For example, if thought appropriate by the council, payment for salaries may be made by banker's standing order provided that the instructions are signed, or otherwise evidenced by two members of the council and any payments are reported to council as made. The approval of the use of a banker's standing order should be renewed by resolution of the council at least every two years.

Councils may now also avail themselves of debit cards and credit cards subject to having internal controls in place to safeguard public money. For example, a corporate credit card account may be opened by the council to be used by the clerk to make authorised payments subject to automatic payment in full at each month-end.

For years parish councils have been used to paying everything by cheque signed by two members of the council. There is no need to discontinue that system but the removal of the restrictive and antiquated provisions of s150(5) means that councils can modernise and be more flexible if they choose. However, the need to risk assess any method of

payment has not changed, nor has the need to put in place adequate and effective internal controls that safeguard public money.