Lanivet Parish Council
Separation of Duties Matrix
Jul-23

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 separation 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 attached matrices have been developed to help you in structuring proper separation of duties and identifying areas where separation of duties is lacking. They will 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, you will need to consider compensating controls or revise duties.

You should always strive for the optimum degree of segregation of duties. However, due to limited staff sizes at most councils, optimum separation of duties cannot be achieved. In those circumstances you should at least strive for an acceptable(minimal) level of segregation of duties which when combined with compensating controls will minimize 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 review.

Cash/Cheque Handling (Receipts, Payments, Reconciliation)

No.	Duty	Name of Staff and Title	Name of Staff and Title	Compensating Controls
1)	Receives Cash/Deposits	Julie Burdon - Parish Clerk		
2)	Reconciles Cash Receipts to Daily Cash	Julie Burdon - Parish Clerk		
3)	Prepares Bank Deposit	Julie Burdon - Parish Clerk		
4)	Takes Deposit to Bank	Julie Burdon - Parish Clerk		
5)				
	Records Deposit Transaction into Accounts Package or Cash Book	Julie Burdon - Parish Clerk		
6)	Reconciles Deposits to amounts recorded in General Ledger	Julie Burdon - Parish Clerk		
7)	Reviews Cash Reconciliations	Julie Burdon - Parish Clerk		
8)				
	Prepares for payment of suppliers (Match Purchase Order, receiving evidence, invoice)	Julie Burdon - Parish Clerk		
9)	Prepares Cheque Requests	Julie Burdon - Parish Clerk		
10)	Approves bank payments or cheques for payment (and affixes signature)	Julie Burdon - Parish Clerk		
11)	Mails supplier cheques	Julie Burdon - Parish Clerk		
12)	Initiates transfers to suppliers or employers	Julie Burdon - Parish Clerk		
13)	Approves transfers to suppliers or employees	Julie Burdon - Parish Clerk		
14)	Creates payroll file and cheques or bank transfers	Julie Burdon - Parish Clerk		
15)	Posts expenses to ledger	Julie Burdon - Parish Clerk		
16)	Reconciles expenses on general ledger	Julie Burdon - Parish Clerk		
17)	Reviews General Ledger reconciliations	Julie Burdon - Parish Clerk		
18)	Reconciles Bank Statements	Julie Burdon - Parish Clerk		
19)	Approves Bank Reconciliations	Julie Burdon - Parish Clerk		

Suggestions for Best Practices

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.

Best practices for the payment of funds would be to ensure that the responsibilities of preparing supplier invoice packages, preparing cheque requests, approving cheques for payment and mailing cheques are separated.

Bank reconciliations should be prepared by someone who is not involved in the cash receipts or disbursement function if at all possible. Also, bank reconciliations should always be approved by supervisory level personnel who are not involved in the daily cash activities.

When staff size limits separation of duties, the following compensating controls may help limit the severity of control weaknesses:

Some of the duties, such as taking deposits to the bank, maintaining cheque stock, etc., could be performed by administrative staff not involved in cash or accounting related functions.

Monitoring and review of receipting and disbursement activity by supervisory personnel not directly involved with daily processing could be added as compensating controls.

Petty Cash

	Name of Staff and Title	Compensating Controls
1) Disburses Petty Cash	N/A	
2) Reconciles Petty Cash	N/A	
3) Replenishes Petty Cash fund	N/A	
4) Posts Petty Cash Activity to General Ledger	N/A	

Suggestions for Best Practices

Generally one person should be designated as petty cash custodian. This person disburses petty cash and turns in

Petty cash custodian should not have access to post activity to general ledger or replenish petty cash fund.

Petty cash counts should be made on periodic basis by someone independent of petty cash process.

Investments and Treasury

		Name of Staff and Title	Name of Staff and Title	Compensating Controls
1)	Initiates request to open bank accounts	Julie Burdon - Parish Clerk		
2)	Authorizes opening of new bank accounts	Parish Council		Council
3)	Adds new account information to General Ledger	Julie Burdon - Parish Clerk		
4)	Initiates investment transactions	Julie Burdon - Parish Clerk		
5)	Reviews and approves investment transactions	Parish Council		
6)	Posts investment activity to the General Ledger	Julie Burdon - Parish Clerk		
7)	Reconciles Investment Accounts to amounts reported on General Ledger	Julie Burdon - Parish Clerk		
8)	Maintains investments (ie, stock certificates, cd's, etc)	Julie Burdon - Parish Clerk		

Suggestions for Best Practices

Only full Council should be able to authorise opening of new bank accounts.

Treasury type activities such as opening bank accounts and authorizing signatories should not be performed by employees involved in daily cash activities.

Employee entering investment activity into the General Ledger should not be same person that initiated and authorized the transactions.

Employee responsible for reconciling investment activity should be independent of investment process.

Investments should be maintained by someone who is not directly involved in day to day investment process. This might be an area for senior management, because they are usually not directly involved with day to day processing.

Purchasing

	Task	Name of Staff and Title	Name of Staff and Title	Compensating Controls
1)	Initiates Purchase Order	Julie Burdon - Parish Clerk		
2)	Prepares Purchase Order	Julie Burdon - Parish Clerk		
3)	Approves Purchase Order	Parish Council		
4)	Modifies Master Supplier file	Julie Burdon - Parish Clerk		
5)	Receives goods from Supplier	Julie Burdon - Parish Clerk		
6)	Modifies or Reconciles Inventory Records	Julie Burdon - Parish Clerk		
7)	Approves Supplier Invoices for Payment	Parish Council		

Suggestions for Best Practices

If Purchase Requisitions are used, they should be reviewed and approved by someone other than employee initiating the requisition.

For most effective separation of duties, employees involved in the purchasing function (initiating requisitions, creating purchase orders, approving purchase orders) should not have payments related responsibilities. These employees should not be able to approve invoices for payment, record invoices, receive goods, maintain inventories, or modify Vendor Master files.

When staff size limits separation of duties, the following compensating controls may help limit the severity of control weaknesses:

Produce reports of purchase orders and subsequent payments from the accounting system and have a supervisory level employee independent of the purchasing function review the reports for accuracy and paying particular attention to payments to new suppliers.

Have person independent of purchasing process check delivery notes and receiving evidence to inventory records.

Payroll

	Name of Staff and Title	Name of Staff and Title	Compensating Controls
1) Responsible for Modifying Employee Master File	Julie Burdon - Parish Clerk		
2) Approves modifications to Employee Master File	Parish Council		
3) Prepares payroll file for processing	Julie Burdon - Parish Clerk		
4) Approves payroll file	Parish Council		
5) Generates Payroll Cheques or bank transfers	Julie Burdon - Parish Clerk		
6) Distributes Payroll cheques or initiates direct deposits	Julie Burdon - Parish Clerk		
7) Reviews and approves final payroll report	Parish Council		
8) Records payroll expense in General Ledger	Julie Burdon - Parish Clerk		
9) Reconciles payroll to General Ledger	Julie Burdon - Parish Clerk		

Suggestions for Best Practices

No one employee should have total responsibility for modifications to the Master file. One employee should initiate the change and a second employee should review and authorise the change. The employee who initiated the change could then make the change. Since this employee has access to the Employee Master file, this employee should not be directly involved in payroll process.

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 employee who is not involved in recording of payroll activity, preparing reconciliations or check distribution.

Processing of payroll should be separated from approval function.

Employee not involved in payroll functions should investigate and reconcile returned payroll checks or rejected direct deposits.

Employee outside of direct payroll functions should post payroll journal (initiate jounal generation) to general ledger.

Reconciliations should be performed by employee who does not have ability make journal entries or otherwise modify payroll.

When staff size limits separation of duties, the following compensating controls may help limit the severity of control weaknesses:

Have supervisory level employee who is not directly involved with the payroll process review and approve payroll files prior to and after final processing.

If an employee involved in the payroll process also maintains the Employee Master file, consider generating a report of all payroll changes and have supervisory level employee review the changes against request forms.

This section should be completed only if the Council has several income sources other than grants.

Income

	Name of Staff and Title	Name of Staff and Title	Name of Staff and Title	Name of Staff and Title	Compensating Controls
1 Till records sale					
1.1 Daily Total					
1.2 Counts Cash					
1.3 Records receipt in ledger					
1.4 Takes receipt to bank					
1.5 Agrees receipt to bank					
2 Numbered ticket records sale					
2.1 Issues tickets					
2.2 Records sales of tickets					
2.3 Reconciles receipts to tickets issued					
2.4 Records receipt in ledger					
2.5 Takes receipt to bank					
2.6 Agrees receipt to bank					
3 Payment in person					
3.1 Issues receipt					
3.2 Receives income					
3.3 Records income in ledger					
3.4 Prepares banking					
3.5 Takes receipt to bank					
3.6 Agrees receipt to bank					
4 Receipt by post					
4.1 Records receipt by post					
4.2 Records income to ledger					
4.3 Takes receipt to bank					
4.4 Agrees receipt to bank					
5 Receipt in bank					
5.1 Records income in ledger					
5.2 Agrees receipt to bank					

Compensating controls

Tills

Independent scrutiny of till rolls and cumulative takings

Tickets

Independent checking of tickets and cumulative numbers

Office receipts

Separation of recording of receipt from accounting

Invoices

Regular reporting of:

Accounts raised

Accounts unpaid and overdue

Specific income stream controls for e.g Room Hire, Allotment fees, Rents

Credit Notes

The issue of a credit note should be treated as if it were a payment requiring authorisation.

Controls over:

Opening new accounts in sales ledger

Write offs

Non-Current Assets

	Task	Name of Staff and Title	Name of Staff and Title	Compensating Controls
1)	Initiates Purchase of Capital Assets (This may be covered in Purchasing Area above)	Julie Burdon - Parish Clerk		
2)	Approves Purchase of Capital Assets	Parish Council		
3)	Approves Capital Asset Disposals	Parish Council		
4)	Disposes of Capital Assets	Julie Burdon - Parish Clerk		
5)	Records Capital Asset additions and disposals in Asset Register	Julie Burdon - Parish Clerk		
6)	Performs periodic physical counts of Capital Assets	Julie Burdon - Parish Clerk		
7)	Reconciles physical Capital Asset counts to Asset Register	Julie Burdon - Parish Clerk		
8)	Makes adjustments to Asset Register	Julie Burdon - Parish Clerk		
11)	Maintains Asset Register (updates file for asset categories, useful lives and valuation and use)	Julie Burdon - Parish Clerk		

Suggestions for Best Practices

Asset Register files of asset categories should be restricted and not available to employees who are authorizing, recording and reconciling fixed assets.

Employees responsible for authorising purchases or disposals of capital assets should not have access to recording transactions in fixed assets ledger.

Periodic physical counts should **not** be performed by person(s) with authorisation or record keeping responsibilities. Some entities hire outside inventory service agencies if staff is not adequate.

Adjustments to the assets register should be reviewed and approved by a supervisory level employee not involved in maintaining fixed assets register.

When staff size limits separation of duties, the following compensating controls may help limit the severity of control weaknesses:

If purchasing and disposition procedures cannot be adequately separated, reports of all fixed asset additions, deductions and disposals could be reviewed and approved by a supervisory level employee not involved in the fixed assets process.

If recording and reconciliation procedures cannot be adequately separated, a supervisory level employee not involved in the fixed asset process could review a report of all adjustments made to help substantiate accuracy of recorded amounts.

General Ledger

	Name of Staff and Title	Name of Staff and Title	Compensating Controls
1) Responsible for modifying (adding, deleting, structuring) General Ledger accounts	Julie Burdon - Parish Clerk		
3) Approves changes to General Ledger accounts	Parish Council		
4) Prepares journal entries for posting	Julie Burdon - Parish Clerk		
5) Approves journal entries	Parish Council		
6) Posts journal entries	Julie Burdon - Parish Clerk		
7) Prepares financial statements from General Ledger	Julie Burdon - Parish Clerk		
8) Approves financial statements	Parish Council		

Suggestions for Best Practices

Generally, the RFO and accounting department personnel should not have access to modify general ledger accounts or change mappings for these accounts. Normally these changes should be recorded after approval by RFO.

Employees responsible for preparing/initiating a journal entry should not be able to approve or record the journal entries.

Financial statements should be approved by supervisory personnel at a higher authority level than person preparing the financial statements.

If the general ledger system is configured so that journals cannot be approved prior to posting a compensating control would be to print a report of all journal entries at the end of each period and have a supervisory level employee who does not have access to record transactions review and approve the transactions that have been recorded.

Inventory

	Name of Staff and Title	Name of Staff and Title	Compensating Controls
1) Receives goods from Supplier	Julie Burdon - Parish Clerk		
2) Performs physical stock counts	Julie Burdon - Parish Clerk		
3) Modifies stock records	Julie Burdon - Parish Clerk		
4)	Julie Burdon - Parish Clerk		
Reconcilies physical stock counts to inventory records			
5) Reconciles stock records to General Ledger	Julie Burdon - Parish Clerk		
6) Reviews reconciliation of stock records to General Ledger	Julie Burdon - Parish Clerk		
7) Disposes of obsolete (scrap) stock	Julie Burdon - Parish Clerk		
8) Records adjustments (journal entries) to stock records and General Ledger	Julie Burdon - Parish Clerk		

Suggestions for Best Practices

Best practices suggest that employees who receive goods from suppliers should not be involved in purchasing or cash disbursement functions.

Physical stock counts should be performed by someone who does not have custody of stock.

Employee who has access to make modifications to stock system should not have access to make adjustments to general ledger

Reconciliation of stock system to physical counts and the general ledger should be performed by someone not responsible for maintaining the stock system.

On stock disposals, one employee should not be able to initiate and approve the disposal and also record these adjustments on the stock system and the general ledger.

When staff size limits separation of duties, the following compensating controls may help limit the severity of control weaknesses:

> If physical counts cannot be performed by employee independent of the stock process, then spot checks of stock counts should be made by employee who is not custodian of stock assets or responsible for recording stock on accounting records.
> If unable to adequately separate duties of maintaining stock system from reconciliation and posting, one suggestion would be to have supervisory personnel receive reports of changes to stock balances, paying particular attention to manual changes and adjustments.
>
> If disposal activities cannot be adequately separated, a supervisory level employee could review and approve a listing of items identified for disposal against actual disposals recorded and income received from scrap sales.

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