

UNDER STRICT EMBARGO UNTIL 0001 ON TUESDAY 10 OCTOBER 2006

2006 BATTLE OF FLOWERS

Report of the Comptroller & Auditor General

APPENDIX 4 ~ INTERNAL CONTROLS

October 2006

This table sets out a comparison between the internal control arrangements of the Jersey Battle of Flowers Association and the provisions of guidance issued by the Charity Commission of England and Wales. The reasons for choosing this guidance for purposes of benchmarking the Association's arrangements are explained in the text of the report. Provisions of the guidance that do not appear relevant to the Association have been omitted from the comparison.

An overall assessment of this comparison is set out in the text of the report.

	<i>Detailed provisions of the Charity Commission guidance that appear relevant to the Jersey Battle of Flowers Association.</i>	<i>Extent to which the provisions of the Charity Commission guidance are satisfied by arrangements within the Jersey Battle of Flowers Association.</i>
	GENERAL	
1	Board members should ensure that the organisation keeps proper books and records and that annual accounts are prepared.	The keeping of the Association's books and records is a responsibility of the Executive Officer. This is checked by the auditors annually and, presumably, any deficiencies would be brought to the Council's attention by the auditors.
2	The Trustees should also consider producing an Annual Report.	The Association publishes a Chairman's Report which accompanies the audited accounts. Copies of these documents are available to the public following the Annual General Meeting.
3	Trustees should ensure that the accounts are subjected to external scrutiny.	The Association's Annual Accounts are audited by Alex Picot, Chartered Accountants.
4	Trustees should formally approve the organisation's annual report and accounts.	The Council approves the audited accounts for presentation to the Annual General Meeting.
5	All Trustees should be provided with copies of the charity's report and accounts.	This is done.
6	New Trustees should be given a copy of the latest accounts on appointment together with other essential documents (e.g. the governing document or constitution).	This is not done. However, members of Council are required by the constitution to members of the Association and in most cases will have been elected at an Annual General Meeting and, if they attended that Meeting will have seen the accounts, but not necessarily the constitution. Copies of the constitution are held in the office. On election, a new member of Council is welcomed by the Chairman and told where help may be found.
	BUDGETARY CONTROLS	
7	To achieve full control over an organisation's finances it is necessary to work within an agreed budget and to undertake full financial planning. Proper and realistic estimates of expected income and expenditure need to be made for each financial year.	Annual budgets are prepared by the Treasurer (2005/2006 by Mr Roberts and previously by Mr Avery) and considered by Council. It is difficult to guarantee a disciplined acceptance of budgets by all sub-committees.

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	INCOMING FUNDS	
8	Board members are under a duty to take control of and to safeguard all funds to which the charity becomes entitled.	I am not aware of any attempt by Council members to check the nature of the internal controls in this area.
	RECEIPTS BY POST	
9	<p>The controls to be considered include:</p> <p>(a) incoming post should be opened at the earliest opportunity and in the presence of two responsible persons.</p> <p>(b) all incoming cheques and cash need to be recorded immediately and entries verified by someone other than the person who has made the entry.</p> <p>(c) where charities have neither premises nor paid staff, trustees should ensure that all donations are sent to a central point and that a book is kept to record receipt of all mail with money enclosed.</p> <p>(d) rotation of post opening staff ought to be considered where practical.</p> <p>(e) security of unopened mail should be ensured.</p>	<p>The Association only employs two members of staff so that rotation and segregation of functions are not possible. A separate book is not kept to record cash/cheques received by post although they are entered in the accounting system.</p> <p>In effect, the system can only rely upon the integrity of the Association's staff.</p>
	FUND-RAISING EVENTS	
10	<p>The controls to be considered include:</p> <p>(1) records should be maintained for each fund raising event in sufficient detail to identify gross receipts and how they have arisen and all costs incurred. For all events for which there is ticket income or gate money ensure that all tickets are pre-numbered.</p> <p>(2) a record is kept of all persons who have been issued with tickets to sell and which ticket numbers have been allocated to them.</p> <p>(3) a record is kept of which tickets have been sold.</p> <p>(4) a reconciliation is made of receipts against tickets sold.</p>	<p>These controls would be appropriate for takings in respect of Battle itself.</p> <p>Tickets are sold directly by way of the Internet, telephone, postal applications and ticket booths both before the Battle and on the day of Battle. They are also sold indirectly. In 2006, this was one by way of Post Offices and previously through the good offices of British Home Stores.</p> <p>Tickets are pre-numbered.</p> <p>Sales by way of the Internet, telephone and postal applications are directly controlled by the Association's office and can be reconciled to records of ticket numbers.</p> <p>Sales by way of the ticket booths can be reconciled in a similar manner. Control over cash takings will be considered below.</p> <p>Sales through Post Offices are reported by Jersey Post and the takings can be reconciled to records of pre-numbered tickets issued.</p> <p>All of these reconciliations are subject to review and check by the</p>

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		Association's auditors.
	BANKING AND CUSTODY PROCEDURES ~ GENERAL	
11	<p>Incoming receipts should be banked regularly and as soon as possible (ie at least weekly).</p> <p>Frequency of banking will depend on the amount of cash received. Keeping cash in a locked box is really only suitable for small amounts of money.</p> <p>Cash or cheques should be placed in a safe or locked cash box if they cannot be banked on the day of receipt. The keys to any safe or cash box should be held by a nominated officer. We advise that they are signed for whenever they are used. Insurance cover should be obtained to cover cash held in the safe or cash box up to a specified limit.</p> <p>All incoming money should be banked gross. No amount should be held back for feeding petty cash.</p> <p>There should be a written statement of policy and practice governing banking and custody procedures which is available to all trustees and staff.</p> <p>The money of the charity should be kept quite separate from any individual's personal money. Trustees should consider the safety of getting money to the bank, especially if an amount of significant sums of cash are involved. Insurance cover should be considered to cover cash in transit.</p> <p>Controls should be maintained over receipt books issued by the organisation both in terms of accounting for all receipts issued and for stocks of receipt books.</p>	<p>Receipts are banked regularly. Separate arrangements exist for takings on the day of Battle and amounts due from the Funfair associated with Battle.</p> <p>Satisfactory controls appear to be applied.</p>
	BANKING AND CUSTODY PROCEDURES ~ WEEK OF BATTLE	
12	<p>The above controls should apply.</p>	<p>Cash and other receipts taken on the day of Battle are collected by Securicor. They are then called from Securicor as and when the Association's staff are able to count them. When counted, the takings are then banked.</p> <p>At one time, it was the Association's practice for Securicor to deliver the takings directly to a bank which would count and deposit them in an appropriate account. When the bank experienced difficulty in finding</p>

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		<p>volunteers for this work, the current arrangements were initiated.</p> <p>The sums due to the Association from the Funfair (£35,000 each year) are paid in two equal sums: before the week of Battle and after the week of Battle. The cash is handed to the Association's staff at the office. They count and deposit it in the Bank.</p> <p>The weakness of these arrangements is that they rely upon the integrity of the Association's staff. Whilst an attempt can be made to reconcile cash takings to the issue of pre-numbered tickets, the risk of misapplication of receipts remains.</p> <p>All of these procedures are subject to review and check by the Association's auditors. As the auditors have signed unqualified reports on the Association's accounts, this suggests that they have been able to complete satisfactory reconciliations of the Association's income.</p>
	CHECKS OF INCOMING RECEIPTS	
13	<p>Trustees should make regular checks to ensure that receipts are being accurately maintained so that money and other assets received can be traced through the accounting system.</p> <p>Frequent random spot checks should be made to ensure that:</p> <ul style="list-style-type: none">(a) records of cash and cheques received agree with bank paying in slips.(b) paying in slips equate with the bank statements both in terms of amount, banked and date of credit.(c) all transfers or other direct payments into the bank can be identified and verified against documentary evidence. <p>These checks should be made by someone other than the person concerned with the original recording of the transactions.</p>	<p>Such checks are not made.</p> <p>In view of the amounts of cash that pass through the Association's office in a short time, the fact that such checks are not made is a matter for regret. They would serve as a protection for the staff on whose integrity the Council relies.</p> <p>Ideally such checks would be made by the Treasurer. Unfortunately, for some years the Executive Officer also acted as Treasurer. During 2005-2006, the difficulty in the relationship between the Executive Officer and the Treasurer would have rendered such checks difficult to arrange.</p> <p>Other members of Council have suggested that the Executive Officer resisted their interest in the accounting records. Mr Avery denies this.</p>

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CONTROLS OVER EXPENDITURE		
14	<p>All expenditure and investment of charitable funds should be promptly authorised and it is essential that there is supporting documentation for all items of expenditure.</p> <p>Instruments of payment should be kept in safe custody with access limited to nominated persons.</p> <p>The preparation of documentation for authorisation should be undertaken by someone other than the persons authorising the payment.</p> <p>Charities should have a written statement of policy in practice covering payment procedures which should be available to Trustees and staff. This should cover instructions on who is authorised (and in what circumstances and up to what limit) to place orders of contracts or to incur any liability on behalf of the charity.</p>	<p>In effect, all expenditure is subject to the control of the Executive Officer. Paragraph 14 of the Constitution is somewhat unclear in its drafting but may imply that decisions over a set amount require approval by others nominated by Council. In practice, this control is applied by way of the signing of cheques.</p>
CONTROLS OVER PURCHASES		
15	<p>Trustees have a responsibility to ensure that adequate checks are made to both confirm that purchases have been properly authorised and the goods or services or order have actually been received:</p> <ul style="list-style-type: none">(a) invoices received should be checked against orders made.(b) records kept of orders placed but not yet carried out.(c) the quality and quantity of goods supplied should be inspected to ensure that they correspond with orders placed.(d) regular stock taking should be undertaken.(e) authorisation for the placing of orders should be documented; payments should only be made against original invoices.	<p>As section 14 above.</p>

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PAYMENTS BY CHEQUE	
16	<p>Trustees should avoid any relevant clause in their governing documents specifying who are the people authorised to sign cheques.</p> <p>The bank mandate should specify at least two signatures as Trustees signatories unless the Trustees can reasonably claim that some other regime must be followed as a matter of operational necessity. It is always advisable to have a pool of people authorised to sign cheques which is greater in number than the minimum number of signatories required on the mandate.</p> <p>Cheques made payable to a nominated signatory should not be signed by that person.</p> <p>Close control should be exercised over access to the cheque books.</p> <p>It is preferable to avoid a situation where related Trustees are able to sign cheques together.</p> <p>It is a dangerous breach of financial control over expenditure from charity funds if banked cheques are signed in advance. The agreed limits for individual signatories should be recorded in the bank mandate and circulated amongst the Trustees.</p> <p>All cheque expenditure should be recorded in the cash book and cross referenced to the cheque number with the nature of the payment and the payee clearly identified. All cheque book stubs should be completed at the time of payment and retained.</p> <p>Regular spot checks should be made of the expenditure records against primary documents such as invoices.</p>
	<p>Paragraph 14 of the constitution is somewhat unclear in its drafting but is understood to apply to cheque signing and specifies that cheques should be signed by any two of the Chairman, Treasurer, Vice Chairman or Executive Officer subject to the provisions of paragraph 13 which provides that the Executive Officer is authorised to spend money to a sum to be agreed by the Executive Council.</p> <p>The mandate specifies that cheques to a limit of £1,000 should be signed by the Executive Officer. In addition to being signed by the Executive Officer, cheques above that limit should also be signed by the Association's Chairman and the Treasurer. As explained in the text of the report some difficulty arose during 2005-2006 over the addition of the Treasurer's name to the mandate.</p> <p>The mandate does not make this provision since all cheques must be signed by the Executive Officer. However, I understand that the mandate in its current form has been in force for many years and has not been questioned by the Council.</p> <p>Cheque books are held in safe keeping in the Association's office.</p> <p>This is achieved by the mandate given the identity of current officers.</p> <p>It is evident that cheques are not signed in advance. Limits on signing authority are recorded in the mandate.</p> <p>This is appropriately done.</p> <p>The comments made above on who might undertake these checks also apply here. It is a matter for regret that such checks have not been made.</p>

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PAYMENT OF CASH	
17	<p>Every effort should be made to reduce the need for cash payments to an absolute minimum.</p> <p>All cash payments should be made from a cash float of a fixed amount which is regularly replenished from the Bank and not by the retention of incoming funds. All claims for replenishment of the cash float should be backed up by supporting documentation and signed by the Cashier.</p> <p>The supporting documentation should be authorised by someone other than the Cashier or claimant. Regular spot checks of petty cash floats should be made by an authorised person independent of the Cashier.</p>
WAGES AND SALARIES	
18	<p>Personnel records should be kept for each member of staff separately from the pay records.</p> <p>Where payments are made in cash these should be paid out by someone other than the person making up the payroll.</p> <p>Trustees need to ensure that employees have a proper contract of employment and that individuals are not incorrectly classified as self employed.</p> <p>Proper procedures should be enforced for payment of expenses, Trustees, employees and volunteers.</p> <p>Procedures should be in place to ensure that control systems are not threatened where a member of staff is absent or leaves.</p>

There is a separate file of correspondence relating to personnel matters.

Contracts of employment exist for each of the Association's two members of staff and are mentioned in the minutes of the Council's meeting on 8 January 2004. I understand that a copy of each contract has been in the relevant file since then.

Council members have commented/complained that they have not been able to inspect the contracts of employment for the two members of the Association's staff. Whether or not it is appropriate for Council members to see the contracts, copies exist within the Association's files.

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CHECKS ON EXPENDITURE RECORDS		
19	<p>Random spot checks should be made to verify that:</p> <p>(a) records of payments made either by cheque stubs, paid invoices or other authorisations in accordance with budgets.</p> <p>(b) cheques have been presented for payment by the Bank or Building Society as shown by the statement.</p> <p>(c) standing orders and direct debit payments are in accordance with valid instructions given to the Bank or Building Society.</p>	<p>The comments made above on who might be able to undertake these checks also apply here. It is a matter for regret that checks of this type are not made.</p>
CONTROLS OVER ASSETS ~ FIXEDASSETS		
20	<p>A list of fixed assets should be held and updated regularly.</p> <p>All fixed assets should be checked at regular intervals to ensure they remain in good repair and of use to the charity.</p> <p>Trustees give due consideration to the need for insuring assets and to the extent of cover which is appropriate.</p> <p>The use made of fixed assets should be reviewed annually to ensure they are put to best use and effectively serve the interests of the charity.</p>	<p>Other than lists maintained for insurance purposes, lists are not maintained and in view of the limited number of assets held, may not be necessary.</p> <p>This is the responsibility of the Executive Officer and there appears to be no difficulty.</p> <p>This is the responsibility of the Executive Officer.</p> <p>In view of the limited number of fixed assets, there appears to be no difficulty here.</p>
BANK OR BUILDING SOCIETY DEPOSITS		
21	<p>A record of all Bank and Building Society deposits should be held in a safe place.</p> <p>Regular bank reconciliations take place and should be carried out by delegated employees; the Trustees need to ensure that this is being done.</p> <p>Instructions to open or close deposit accounts should be authorised by the whole Trustee body.</p> <p>Accounts should not be allowed to remain dormant.</p> <p>Statements should be sent to a nominated Trustee and made available for inspection by any Trustee.</p>	<p>The accounting records include records of all accounts.</p> <p>The Executive Officer is responsible for this. Comments above on who might be able to carry out such checks also apply here.</p> <p>Accounts have not recently been opened or closed.</p> <p>There are no dormant accounts.</p> <p>Statements are sent to the Association's office and are held there. Comments above on who might be able to carry out such checks also apply here.</p>

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Board members may consider it impracticable for them to undertake personally all of the checks and controls mentioned in this list. Accordingly they may consider the possibility of delegating certain tasks. However, where a control function is delegated Trustees should ensure that systems and procedures are in place to enable them to check that the necessary controls are in force and functioning correctly.