

Clerk's Report to: Parish Council Meeting  
Date: 21 October 2019  
Subject: Internet Banking (Digital Banking)

## 1 INTRODUCTION

This report provides information on advice issued by the National Association of Local Councils (NALC) relating to parish councils' use of online banking, and the potential implications for the way in which the Parish Council operates with regard to the authorisation of payments.

This is an initial report only, and the Clerk is proposing to make further enquiries of the Royal Bank of Scotland (the Parish Council's bankers).

## 2 DECISION REQUIRED

No decision is required at this meeting. This report is to explore the possibility of introducing Internet Banking (digital banking).

## 3 CURRENT POSITION

Arrangements have developed significantly over the last few years. Part of this is that the use of cheques is becoming rare. Many businesses and individuals prefer to receive payment by electronic means and are now discouraging the use of cheques; for example, HMRC will no longer allow the Post Office to accept cheques for the payment of tax and national insurance payments.

Recognising the trend, in 2014 the Government repealed Section 150(5) of the Local Government Act 1972<sup>1</sup>, which required that *'every cheque or other order for the payment of money shall be signed by two members of the council'*.

In repealing this requirement, the Government stated: *'This rule is a significant barrier to these councils using electronic means of payment, and the effect is to impose additional burdens and costs both on them and on the private firms and other public sector bodies they make payments to'*.

## 4 THE RISK

If the Parish Council is to operate using Internet banking, there is a fundamental risk of fraud as the Clerk could make any payment to any person, including unauthorised payments.

The fraud risk is that Members would have no sight of what is actually paid electronically out of the Parish Council's account.

## 5 NALC ADVICE

Councils must not relinquish the 'two-member signatures' control over cheques and other orders for payment until they have put in place safe and efficient arrangements in accordance with the guidance noted below from the NALC Finance and Audit Advisor: *'The over-riding requirement resulting from the abolition of S150 (5) is that each and every local council seeking to depart from the two-signature rule must implement and maintain robust controls on expenditure as an integrated part of their overall financial control system.'*

It is not a requirement that two people authorise electronic payments; however, it is a general principle that more than one person should be involved in any payment, whether that is before, at or after the point at which the payment is made. Councils must consider the appropriate systems, procedures and controls available by banking providers.

### With regard to banks:

- All signatories have viewing access to the Council's bank accounts;
- One councillor (signatory) authorises the payments using the electronic banking/online system;
- All signatories are sent a text alert to notify them of payments being authorised;
- All signatories able to view all transactions electronically.

With regard to internal controls:

- Clerk sets up the schedule of payments, the list of payments is sent to all members;
- A list of payments is approved at a Council meeting;
- The Clerk scans and issues bank statements to each time they are received, either separately from the agenda, or as part of the agenda, in Part Two of the meeting.

At present, the Clerk lists all payments requiring approval, on the agenda for each meeting. There are occasions when payments are made outside a meeting, and these are reported to the next Council meeting. These are usually for payments where there is a budget heading and the invoice has been received too late for the Parish Council meeting to approve it.

There are also occasions where payments are required to be made, usually relating to the acceptance of a quotation where the sum is under £1,000 and this can, therefore, be approved by the Clerk in consultation with the Chairman.

## **6 INSURANCE**

The Parish Council holds fidelity insurance to protect it against any losses suffered through fraud. The Clerk is making enquiries of Came & Company the insurance broker, to ensure that the current fidelity cover would remain intact or whether it could be compromised in the event of any fraud. It is expected that the response will be that it is the Parish Council's responsibility to comply with the provisions of the insurance cover and to ensure there are adequate internal controls in place to prevent fraud.

## **7 SUMMARY**

In relation to the process and approval of payments, a crucial insurance and control requirement is that "*Duties will be segregated ... so that no one individual can complete a payment from beginning to end without referral to others*". The Parish Council procedures would appear to cover this requirement by virtue of the pre-approval by Members of any payments made.

It would only be where procedures are circumvented and unauthorised payments made that the Parish Council would run the risk of suffering financial losses. Fidelity insurance cover is in place to provide a protection against procedures being circumvented and should, therefore, apply, although the Parish Council's insurer will be unlikely to guarantee the applicability of fidelity insurance cover in the event of any unauthorised payments. The Parish Council can strengthen its arrangements for preventing fraud and complying with insurance requirements by adding to its current procedures.

## **8 CLERK'S ACTION**

The Clerk will report to a future meeting, when further enquiries have been completed.

Carol Jones  
Clerk  
11 October 2019