

Cumbria Shared Internal Audit Service

Internal Audit Report for Cumbria Constabulary



Audit of Cash Receipting

Draft Report Issued: **16th April 2018**

Final Report Issued: **4th May 2018**

Audit Resources

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Audit Report Distribution

For Action:	Ann Dobinson, Head of Central Services
For Information:	Michelle Bellis, Deputy Chief Finance Officer Stephen Kirkpatrick, Director of Corporate Support Roger Marshall, Joint Chief Finance Officer
Audit Committee	The Joint Audit & Standards Committee, which is due to be held on 24 th May, will receive the report:

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Cumbria Shared Internal Audit Service

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1. Background

- 1.1. This report summarises the findings from the audit of cash receipting. This was a planned audit assignment which was undertaken in accordance with the 2017/18 Audit Plan.
- 1.2. The Joint Chief Finance Officer has a statutory responsibility for ensuring that the financial affairs of the Police and Crime Commissioner and Chief Constable are properly administered and that the financial regulations, which set out the internal framework for financial administration and control within the organisation are adhered to.
- 1.3. The cash receipting function, which is carried out within the Central Services Department (CSD), has been identified as one of the main financial systems and the identified key controls are reviewed through the annual process of management assurance statements.
- 1.4. In the twelve week period examined as part of the audit testing, transactions totalling £190.3K were banked by CSD, of which £66.3K (almost 35%) was in cash.

2. Audit Approach

2.1. Audit Objectives and Methodology

- 2.1.1. Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives which are outlined in section 4; detailed findings and recommendations are reported within section 5 of this report.

2.2. Audit Scope and Limitations

- 2.2.1. The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was the Head of Central Services. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:
 - Policy and Procedures, including roles and responsibilities;
 - Security of monies held.

2.2.2. There were no instances whereby the audit work undertaken was impaired by the availability of information.

3. Assurance Opinion

3.1. Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A**.

3.2. From the areas examined and tested as part of this audit review, we consider the current controls operating for cash receipting provide **Reasonable** assurance.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4. Summary of Recommendations, Audit Findings and Report Distribution

4.1. There are three levels of audit recommendation; the definition for each level is explained in **Appendix B**.

4.2. There are **3** audit recommendations arising from this audit review and these can be summarised as follows:

Control Objective	No. of recommendations		
	High	Medium	Advisory
1. Management - achievement of the organisation's strategic objectives	-	-	-
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (see section 5.1.)	-	2	-
3. Information - reliability and integrity of financial and operational information	-	-	-

4. Security - safeguarding of assets (see section 5.2)	-	1	-
5. Value - effectiveness and efficiency of operations and programmes	-	-	-
Total Number of Recommendations	-	3	-

4.3. **Strengths:** The following areas of good practice were identified during the course of the audit:

- The log of seized monies held in the main safe provides a running total to ensure insurance limits are not exceeded and periodic inspections are undertaken to confirm that seized cash held agrees to the log.

4.4. **Areas for development:** Improvements in the following areas are necessary in order to strengthen existing control arrangements:

4.4.1. *High priority issues:*

- None identified

4.4.2. *Medium priority issues:*

- The Procedures prepared for staff in Central Services Department do not define all aspects of the cash receipting and banking process.
- Arrangements for ensuring and evidencing that internal procedures comply with the insurance requirements for carrying cash are not in place.
- Management's arrangements for ensuring compliance with defined timely receipting procedures are not evident.

4.4.3. *Advisory issues:*

- None identified

Comment from the Director of Corporate Support

I am pleased that this audit of Cash Receipting functions and processes has provided Reasonable assurance and that there are no high priority areas for action identified.

I note the recognised strengths regarding the effective management of seized cash. We acknowledge and fully accept the three medium priority recommendations across the regulatory and security aspects.

The Central Services Department have effective controls in place but accept and will action the suggestions to enhance the procedures and to remind staff of their obligations within the timescales agreed.

5. Matters Arising / Agreed Action Plan

5.1. **Regulatory** - compliance with laws, regulations, policies, procedures and contracts.

● **Medium priority**

Audit finding	Management response
<p>(a) Procedures</p> <p>The Financial Regulations, supported by the Financial Rules, set out management’s requirements for cash receipting.</p> <p>For the more procedural aspects of cash receipting, guidance notes have been prepared for staff in CSD, to set out the steps to be followed. However, the procedures provided during the audit do not define all aspects of the cash receipting and banking process. Examples include:</p> <ul style="list-style-type: none"> • Checks required on any cheques received (e.g. to ensure all required information is recorded and there is sufficient information to identify the reason for payment) • Procedure should a discrepancy be identified. • Where the weekly canteen spreadsheet (which is emailed to CSD) should be saved or the file name format that should be used (our testing identified that they were not in the same format each time). • New insurance requirements when carrying cash (<i>number of people etc. required to take the banking depending on value</i>) and a means for demonstrating compliance, • The arrangements and responsibility for granting and recording those with access to the safes. <i>This could include management’s requirements around the circumstances / frequency in which the combination / access should be reviewed.</i> • Reference to the money laundering requirements (<i>although this is covered in Financial Regulations it could be included as a reminder that staff should report to Head of CSD for escalation, where appropriate</i>) <p>The Banking Procedures provided for audit testing are headed - HQ Banking and do not make reference to the Divisional Offices. Discussions indicated that staff in the divisions had been</p>	<p>Agreed management action:</p> <p>CSD staff in HQ and Area based teams have fully documented procedures to follow to undertake the weekly banking. Staff are provided with these along with training when they start to undertake this role.</p> <p>The existing procedures will be enhanced to include more detail as suggested.</p>

<p>provided with procedures as part of their initial training but this was not evident from the information provided as part of this audit. Post audit, evidence was provided that there were documented procedures available to staff in the Divisional Offices. As with those for HQ, some enhancements are suggested.</p> <p>Comprehensive guidance procedures setting out management’s expectations of staff at HQ and in Divisional Offices would ensure that responsibilities are clearly defined and staff can be held to account.</p>	
<p>Recommendation 1: Management should clearly define and communicate their requirements in relation to cash receipting procedures to ensure that staff in HQ and the Divisional Offices are fully aware of their individual responsibilities.</p>	
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> • Roles and responsibilities for cash receipting is not defined resulting in a lack of accountability • Non-compliance with management requirements. 	<p>Responsible manager for implementing: Payroll & Transactional Services Manager</p> <p>Date to be implemented: June 2018</p>

• **Medium priority**

Audit finding	Management response
<p>(b) Compliance with insurance requirements</p> <p>The property insurance, which includes cash, was switched from Zurich to AIG in November 2016. Insurance requirements for cash were changed by the new insurer.</p> <p>The new policy provides cover for cash carrying and sets out requirements for the transportation of cash depending on the amount being carried.</p> <p>Although assurance was provided at the time of the audit that Insurance requirements are being complied with, arrangements are not in place to demonstrate this.</p>	<p>Agreed management action:</p> <p>Procedures will be amended to add the requirement to document on the Business Banking Receipt details of who has attended the bank on that particular day.</p>

<p>Without the ability to evidence compliance with the requirements of the insurance company there is a risk that any insurance claim could be rejected by the insurer.</p>	
<p>Recommendation 2: Management should have arrangements in place to ensure that internal procedures comply with the insurance requirements for carrying cash and that compliance can be demonstrated.</p>	
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> • Risk of unrecoverable losses due to a breach of insurance limits and requirements. • Reputational damage 	<p>Responsible manager for implementing: Head of Central Services Date to be implemented: May 2018</p>

5.2. Security - safeguarding of assets.

• **Medium priority**

Audit finding	Management response
<p>(a) Prompt Receipting The HQ Banking Procedures state that “<i>cheques and cash are logged and receipted daily in the relevant receipt book</i>”.</p> <p>At the time of audit testing the general receipt book recorded £34 cash in hand. We examined the contents of the cash tin in the safe and it was noted that it contained £59 cash and a cheque for £47 dated November 2017.</p> <p>We were advised that the additional £25 cash had been received after the previous week’s banking had been prepared and was therefore not receipted at the time. The cheque was not supported by sufficient information to identify the reason for payment and additional information was required before it could be banked.</p> <p>Arrangements are not currently in place to be assured that defined banking procedures are being</p>	<p>Agreed management action: Normally all cheques and cash are receipted on the day they are received as detailed in the procedures.</p> <p>A reminder email has been sent to all staff involved in the banking process to ensure all income is receipted on the day it is received in line with the agreed procedures.</p>

<p>complied with and that all income received is being recorded promptly.</p>	
<p>Recommendation 3: Management should put arrangements in place to ensure</p> <ul style="list-style-type: none"> • Compliance with their requirement for the prompt receipting of all cash received, and • the timely follow up of any amounts received for which the reason for payment is unclear. 	
<p>Risk exposure if not addressed:</p> <ul style="list-style-type: none"> • Non-compliance with procedures • Risk of Fraud or misappropriation • Reputational damage 	<p>Responsible manager for implementing: Head of Central Services Date to be implemented: April 2018</p>

Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The controls tested are being consistently applied and no weaknesses were identified.</p> <p>Recommendations, if any, are of an advisory nature in context of the systems and operating controls & management of risks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed.</p> <p>Recommendations are no greater than medium priority.</p>
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	<p>There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>Recommendations may include high and medium priority matters for address.</p>
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.</p>

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below.

Definition:		
High	●	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	●	Some risk exposure identified from a weakness in the system of internal control
Advisory	●	Minor risk exposure / suggested improvement to enhance the system of control

Recommendation Follow Up Arrangements:

- High priority recommendations will be formally followed up by Internal Audit and reported within the defined follow up timescales. This follow up work may include additional audit verification and testing to ensure the agreed actions have been effectively implemented.
- Medium priority recommendations will be followed with the responsible officer within the defined timescales.
- Advisory issues are for management consideration.