

# Financial Transactions and Income Management

## City of York Council

### Internal Audit Report 2017/18

Business Unit: Customer and Corporate Services  
 Responsible Officer: Director, Customer & Corporate Services  
 Service Manager: Corporate Finance and Procurement Manager  
 Date Issued: 26 Feb 2018  
 Status: Final  
 Reference: 10330/010

	P1	P2	P3
<b>Actions</b>	0	0	1
<b>Audit Opinion: Financial Transactions Income Management</b>	High Assurance Reasonable Assurance		

# Summary and Overall Conclusions

## Introduction

The Transactional Services Team, under the oversight of the Financial Transactions Manager, is responsible for the processing of all Council income.

In 2016/17, the Council received 476,646 payments totalling £886,740,911. In the first quarter of 2017/18, 145,698 payments were processed with a corresponding value of £270,148,596.

There are several ways that a Council debtor can pay for services, including but not limited to online banking, cheque payments, cash payments, and via the E-Store. Whilst cash payments have decreased significantly, the management and processing of income is considered a high risk area and is audited on an annual basis.

Recent audits have been focused on the income receipting system based at West Offices, which has generally received high assurance levels. Therefore, alongside transactional testing, this audit focused on how embedded the Cash Handling Procedures are across cash handling areas at satellite institutions.

## Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system will ensure that:

- All income received by the Council is processed and accounted for correctly and in line with the relevant policies, procedures and Financial Regulations.
- All income transactions are supported by the appropriate and relevant records.
- Cash received is protected from loss and theft from receipt through to banking, in line with the Council's Cash Handling Procedures.
- The Council's Income Policy is up-to-date and applied consistently.

## Key Findings

This audit considered the financial transactions operations at the Council in addition to the cash handling procedures at a sample of satellite sites responsible for taking cash payments. In reporting on the audit work undertaken, these areas will be discussed separately to ensure that the level of assurance given is a fair representation of each area.

The Council's Income Policy is due for renewal and was considered as part of the Debtors audit.

## Financial Transactions

The work undertaken was to ensure that income received by the Council is processed and accounted for correctly and supported by the appropriate records. As was found in the 15/16 audit, there are no issues concerning the processing and banking of payments: all days sampled reconcile correctly, with sufficient supporting documents showing the correct action was taken. The Financial Transactions Manager (FTM) remains a key control within this area and although a department manual provides the necessary assistance to complete the reconciliations the breadth of knowledge held by the FTM is unlikely to be fully captured in this manual.

Whilst there were no exceptions identified as part of the audit work, the process of reconciliation is time-consuming to anyone without the daily practical experience of performing the reconciliations. It may be worth considering whether the cashing up sheet could be refreshed to be more representative of the type of income now being collected by the Council.

### Conclusion

It was found that the arrangements for managing risk for financial transactions were very good. An effective control environment appears to be in operation. Our overall opinion of the controls within the system at the time of the audit was that they provided High Assurance.

## Cash Handling Procedures

Cash handling procedures were reviewed at three separate cash handling sites. Compliance with the updated Cash Handling Procedures was considered, as was the physical safeguarding and accurate and complete recording of all cash monies received.

- Overall, the conditions observed at the sites tested were in line with the Cash Handling Procedures, however there is an opportunity to streamline the process at Ordnance Lane to ensure that the controls accurately reflect the level of risk inherent to the process. With the upcoming move to a new site there is an opportunity to revise the current practices.
- Minor cash handling issues were identified at two of the three sites visited. These were fed back to the manager(s) at the time. However, current guidance should be communicated to all cash handling sites as a timely reminder for all staff involved in the process.
- The proposed Cash Handling Procedures at the Mansion House were considered and were found to be in line with guidance from the Council. When this site has re-opened to the public, these Procedures should be tested against actual cash handling practices.
- The Council's Petty Cash and Payments Procedure was also reviewed as part of this audit as part of the follow up work from the 2016/17 Petty Cash audit. This has been updated and the revised document was uploaded to the intranet during the audit.

### Conclusion

It was found that the arrangements for managing risk for the cash handling were satisfactory with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made. Our overall opinion of the controls within the system at the time of the audit was that they provided Reasonable Assurance.

# 1. Cash Handling and Petty Cash Procedures at Ordnance Lane

## Issue/Control Weakness

The current Cash Handling and Petty Cash Procedures do not reflect the volume and value of cash received.  
The Petty Cash Procedures do not reflect the working practices of support workers and as such are not being followed appropriately.

## Risk

Current petty cash and cash up procedures are outdated and no longer fit for purpose, leading to an over-control and reduced cost benefit to the Council.

## Findings

Observation of the cash up at Ordnance Lane highlighted opportunities for the review of procedures.

Ordnance Lane cash ups are always performed by one individual. Whilst this is a deviation from the Cash Handling Procedures it is not considered a significant risk as the daily cash up total rarely exceeds £10, there is a physical paper audit trail and it was noted that it there were no instances where the cashing up had not balanced. Cashing up of all monies collected and a petty cash reconciliation is carried out on a daily basis. Given the amounts of monies involved, the department need to assess whether this is proportionate.

Completed petty cash claim forms had no authorising signature. The support worker confirmed that authorisation did not occur when the petty cash was initially taken. The nature of the expenditure (baking goods for the women’s group at the Osbaldwick travellers’ site etc.) meant that staff were on occasions owed more than the monies remaining in the petty cash float, indicating that the limit may need to be revised. With the upcoming move to a new site, there is an opportunity to assess the current petty cash practices.

Banking arrangements for Ordnance Lane are irregular and in many cases reliant on a prompt from the FTM. Discussions with the support workers and FTM indicated that banking could be more frequent (as the amount of cash collected is minimal, a balance needs to be struck between what is practical and what is timely).

## Agreed Action 1.1

We will look at the cash handling, petty cash and banking arrangements, specifically with the move to the new site (the end of this year). This will include the use of purchase cards (where appropriate) and ensuring processes are proportionate.  
Any new procedures/processes will be made in conjunction with colleagues in Finance.

**Priority**

3

**Responsible Officer**

Temporary  
Accommodation  
Manager

**Timescale**

30 September 2018

# Audit Opinions and Priorities for Actions

## Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

## Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

Where information resulting from audit work is made public or is provided to a third party by the client or by Veritau then this must be done on the understanding that any third party will rely on the information at its own risk. Veritau will not owe a duty of care or assume any responsibility towards anyone other than the client in relation to the information supplied. Equally, no third party may assert any rights or bring any claims against Veritau in connection with the information. Where information is provided to a named third party, the third party will keep the information confidential.