



**Internal Audit Report**

*CORPORATE SERVICES & OPERATIONAL SERVICES*

**Review of Cash and Income Banking**

*NOVEMBER 2008*

Argyll & Bute Council  
Corporate Services and Operational Services – Review of Cash and Income  
Banking

<b>SECTION</b>		<b>PAGE</b>
1	Introduction	1
2	Audit Scope and Objectives	1
3	Risk Assessment	2
4	Corporate Governance	2
5	Main Findings	2
6	Recommendations	2
7	Audit Opinion	3
8	Acknowledgements	3
Appendix 1	Action Plan	App 1

## **1 INTRODUCTION**

This report has been prepared as a result of the Internal Audit review of Income and Banking, Corporate Services as part of the 2008/09 Internal Audit programme.

The Council has many forms of income and these include cash, cheques, bank giro credits, standing orders, credit card and internet payments and direct debit. The sources of this income can be Council Tax, Non Domestic Rates, and payments for Sundry Invoices (special refuse collections, care homes etc.) or direct payment at leisure centres or other service locations. The Council has created Customer Service Centres where payment can be made for the range of services offered and these are managed by Corporate Services. In addition Operational Services oversee the running of leisure services etc. whilst Community Services through both Education and Social Work services have some cash collection responsibilities also.

Four main operating bank accounts are in use and these are Local Tax, Housing Benefit, Expenditure and Income. These are the responsibility of the Finance Team, Revenues & Benefits and Creditors Sections based at Witchburn Road, Campbeltown. The Income Bank Account has approximately 40,000 transactions in the year and there are approximately 12,000 income journals processed through the general ledger income bank account each year.

## **2 AUDIT SCOPE AND OBJECTIVES**

The broad objectives of the review were to:

- ensure compliance with financial regulations as set out in the Council's Constitution
- verify that the controls are in place to ensure the integrity of income and banking transactions are effective
- verify that there is effective security in place in the processing of cash and other receipts.

In order to satisfy the above objectives the processes involved in the income and banking systems were reviewed for completeness and accuracy of information. This included the issue and assessment of an internal control questionnaire and the development of compliance tests to confirm the validity of the controls. Our review concentrated upon the:

- policies and procedures in place
- receiving and recording of income transactions
- security and banking together with appropriate accounting reconciliations.

All income received by the Council is ultimately processed by ICT and Financial Services at its office located at Witchburn Road, Campbeltown. Income is received at many different locations throughout the Council's area of operation prior to the information reaching Campbeltown. Receipting and banking is therefore a distributed operation while recording and reconciling the data is largely centralised in

Campbeltown. The main contacts for the purpose of our audit were the Head of Financial and ICT Services; the Revenues and Benefits Manager and the Revenues Assistants. In addition Internal Audit visited Kilbowie House, the Corran Halls and Milton House to review the distributed receipting and banking processes.

### 3 RISK ASSESSMENT

Internal Audit based its risk assessment upon the responses to the CIPFA standard Internal Control Questionnaire: Cash and Bank, and the Council's procedures in place and provided to us in response to the questionnaire. The risks to the organisation were reviewed from the bases; policies and procedures; transactions; postal remittances; income reconciliation and security and banking with tests devised to ensure control compliance as indicated in the following table:

<b>Basis</b>	<b>No of Tests</b>	<b>Period Reviewed</b>	<b>Sample size</b>
Policies & Procedures	11	As at June 2008	100%
Transactions	5	Week Commencing 16 June 2008	100 Income Vouchers
Postal Remittances	5	As at August 2008	1 Day
Income Reconciliation	4	Week Commencing 16 June 2008	100 Income Vouchers
Security & Banking	5	As at August/September 2008	By enquiry
Bank Reconciliations	1	June and July 2008	2 months in summary, and 1 week in detail

### 4 CORPORATE GOVERNANCE

The Cash Section has been identified in conjunction with Glenn Abbot BCP Consultants as a critical function and as such requires a Business Continuity Plan and we have been provided with a copy of the Disaster Recovery Plan for Corporate Services, ICT and Financial Services, Cash Section created on 17 June 2008.

### 5 MAIN FINDINGS

We found that, in the main, the internal controls and checks in place were satisfactory and any issues arising were of minor or medium materiality. The main findings were:

- ◆ The complexity of checking and the volume of transactions in the Income Bank Account creates an environment where the margin for error in the bank reconciliation, which is a manual process, is high. However, in the first four months of 2008/09 differences of under £1k occurred while the monthly movement in the difference did not exceed £1.2k.
- ◆ Following the appointment of a new security firm for cash collection and banking there remain inconsistencies in the procedure adopted at different locations.
- ◆ The control to ensure ferry tickets are issued to all travellers and reconciled to cash received is inadequate; however it is recognised that any solution may not be cost effective.

## 6 ACTION PLAN and RECOMMENDATIONS

- 6.1 The action plan attached at Appendix 1 has been compiled with the co-operation and agreement of departmental management.
- 6.2 Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.
- 6.3 A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as fundamental, material or minor. The definitions of each classification is set out below:-

**High** - observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

**Medium** - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

**Low** – Observations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

- 6.4 Five recommendations were identified as a result of the audit, three of medium priority and two of low priority. The recommendations are shown in the action plan set out in Appendix 1.

## **7 AUDIT OPINION**

Based on the findings we can conclude that the controls in place in respect of Income and Banking procedures are satisfactory. It is anticipated that the introduction of a new cash receipting system will improve the existing controls and this will be the subject of a future review.

The auditor is satisfied that the section has answered the ICQ in an appropriate manner.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

## **8 ACKNOWLEDGEMENTS**

Thanks are due to all staff within Revenues and Benefits Section of Corporate Services and appropriate Operational Services personnel at Kilbowie House, Milton House and the Corran Halls for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

**APPENDIX 1 ACTION PLAN**

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
2	It was noted that the Lismore Ferry point of sale records were manually generated as opposed to machine generated cash up records. On enquiry we were advised that this machine regularly fails and indeed with or without machine generated records we have an overall concern that if no ticket is issued cash could be received and not processed as income. The required control would be the collection of tickets on leaving the ferry by a crew member not responsible for the issue of tickets and the tickets reconciled to the total received	<i>Medium</i>	<ol style="list-style-type: none"> <li>1. The improvement in control is likely to have a cost implication and therefore it is recommended that a cost benefit exercise is carried out to determine the need for the additional internal check.</li> <li>2. The Lismore ferry ticket machine should be repaired or replaced as necessary</li> </ol>	Marine and Airports Manager, Roads and Amenity Services	January 2009
	All discrepancies were	<i>Medium</i>	The system for recording	Principal Officer,	January 2009

Argyll & Bute Council  
 Corporate Services and Operational Services – Review of Cash and Income Banking

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
3	within acceptable limits excepting one at Milton House and this was investigated separately.		car parking machine income collected for banking by G4S should be consistent in all locations and should be introduced at Milton House and Blairvadich House as soon as possible	Operational Services.	
5	While in Helensburgh & Lomond average ticket values were unaffected the daily revenue from car parks falls when machines are emptied more infrequently. This suggests that visibility of parking attendants and/or other staff emptying machines encourages payment by customers rather than risk a fine. Equally the absence of an attendant is likely to reduce revenues.	<i>High</i>	<ol style="list-style-type: none"> <li>1. Roads and amenity Services should carry out a review of car park earnings in Helensburgh &amp; Lomond comparing periods when a car park attendant was employed with a similar period when no car park attendant was in place include the revenue from parking fines to measure the cost benefit of employing a car park attendant.</li> <li>2. Regardless of the appointment of a car park attendant a visible Council presence in the car parks is conducive to</li> </ol>	Network & Environment Manager, Roads and Amenity Services	January 2009



No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
			encouraging income and therefore it would be beneficial if machines were emptied twice week and once a week as a minimum; consider seasonal influence.		
6	Balances per the bank statements and ledger are imported from the bank and ledger download sheets and checked to the actual bank statement and ledger balances. Also imported is the total of items not yet through the bank. The July reconciliation was signed off on 22 August by the Revenues and Benefits Manager. In the first 4 months of the year the Income Bank Account did not reconcile. Each month's difference was less than £1000 while the difference movement	<i>Medium</i>	While the reconciliation differences are within acceptable levels, especially considering the complexity and volume of transactions, it should be possible and is highly desirable that differences are eliminated. As a new Cash Receipting system is being introduced in January 2009 and incorporates a bank reconciliation module to be introduced in August 2009 it is recommended that all prior differences are written off at that time to allow the implementation to be effected from a zero base.	Head of ICT and Financial Services	On introduction of new Bank Reconciliation Module within new Cash receipting Software estimated to be August 2009.

Argyll & Bute Council  
Corporate Services and Operational Services – Review of Cash and Income Banking

<b>No.</b>	<b>FINDINGS</b>	<b>PRIORITY</b>	<b>RECOMMENDATION</b>	<b>RESPONSIBLE OFFICER</b>	<b>IMPLEMENTATION DATE</b>
	between months was less than £1200. The reconciliations were performed promptly.				